Capitalizing Child Care

The National Landscape of Grants, Loans, and Community Development Capital in Early Childhood Education

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REINVESTMENT FUND

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About Reinvestment Fund

Reinvestment Fund is a mission-driven financial institution committed to making communities work for all people. We bring financial and analytical tools to partnerships that work to ensure that everyone has access to essential opportunities: affordable places to live, access to nutritious food and health care, schools where their children can flourish, and strong, local businesses that support jobs. We use data to understand markets, communities, and impediments to opportunity—and how investment and policy decisions can have the most powerful impact. Since our inception in 1985, Reinvestment Fund has provided over $2.4 billion in financing to strengthen neighborhoods, scale social enterprises, and build resilient communities.

About NCFN

The National Children's Facilities Network (NCFN) is a coalition of more than 60 nonprofit Community Development Financial Institutions (CDFIs), financial and technical assistance intermediaries, and child care stakeholders dedicated to helping Early Childhood Education (ECE) providers develop high-quality physical learning environments and sustainable business models. By providing technical assistance and financing to early learning providers, we seek to address capital needs and business capacity challenges that limit a working family's ability to gain equitable access to high-quality ECE programs. NCFN works to generate federal resources that support the development and improvement of early childhood facilities in underserved communities nationwide. The Network collaborates with other children's advocacy leaders concerned with addressing the supply and quality of early childhood facilities across the country. For more information, visit www.ncfn.org and follow NCFN on Twitter @ECEFacilities.

Making Space: Leading Perspectives on Child Care Facilities: This paper is the third in a series of thought leadership pieces produced by National Children's Facilities Network (NCFN) Members. The Making Space series explores the importance of high-quality child care facilities, challenges to financing and accessing this vital infrastructure, and the role of intermediaries in achieving innovative solutions to increase the quality and affordability of child care facilities.

Introduction

The COVID-19 pandemic highlighted the substantial gaps in access to child care and the important role of this industry in our economy. As we seek to move from stabilization to recovery, more attention is being paid to the fragility of the system, in particular the tenuous operating model and the high cost of building and maintaining a high-quality supply of child care that meets the needs of families.

Researchers have studied the costs of providing high quality care: building sophisticated models that show how various definitions of quality and policy requirements impact the cost of child care.[1] But less attention has been paid to the role that access to capital plays in supporting child care programs. To that end, this paper describes the early lessons and findings from a joint project between the National Children's Facilities Network (NCFN) and Reinvestment Fund to identify and map the financial institutions and intermediaries that help finance the child care industry — including child care business operations and physical facility spaces.

This effort focuses on three major sources of capital: lenders participating in the Small Business Administration (SBA) loan programs, Community Development Financial Institutions (CDFIs), and philanthropic support from foundations. Our initial findings help describe the contours of the financial landscape child care providers traverse on the path to growing a sustainable business:

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1 See: https://childcareta.acf.hhs.gov/pcqc

- **By volume, SBA programs were the largest source of capital for child care providers of those studied.** Between 2016 and 2020, loans originated under the SBA's 7(a) and 504 programs invested $3.8 billion in child care businesses. SBA loans were primarily accessed by the largest child care providers. Small providers, who make up the bulk of the industry, were under-represented in SBA lending programs.
- **CDFIs lent or invested over $143 million in the child care sector between 2015 and 2019**. CDFI activity helped fill the gap left by SBA programs. Most CDFI transactions were small micro-business loans (under $50,000) which were uncommon for child care providers that received larger SBA loans.
- **Foundations granted over $428 million to support child care businesses between 2016 and 2020**. Most foundations investing in children and families were local, and these institutions were geographically concentrated in more populous urban counties.
- **Most SBA, CDFI, and foundation activity was concentrated in urban areas**, with child care businesses in rural areas underrepresented across all three capital sources.

As CDFIs working in the child care sector, we understand that the financial challenges facing the child care industry are too great for any single organization in the private sector to solve alone. However, by building connections between organizations, we have seen communities achieve amazing results. Through analyzing and mapping the institutions that provide financial support to child care businesses, we hope to shine a light on the community ecosystem that is necessary to support a thriving child care sector.

Capital Access for Small Businesses and Child Care Providers

Most child care providers are small businesses; 41% have fewer than five employees, and many establishments are organized as sole proprietorships with a single employee.[2] Access to capital is an essential component of small business development in every sector, and child care is no exception. Startups and young businesses need capital to purchase the equipment and supplies that will make their businesses viable. Established businesses looking to grow also need capital to fund their expansions into new markets or develop the products and services that can fuel their growth. Even businesses not focused on expansion need capital for more mundane but essential activities like paying operating expenses, managing cashflow, refinancing debt, and replacing or repairing physical assets.

National surveys of entrepreneurs find that between 90% and 95% of entrepreneurs required financing to start their businesses.[3] Access to capital is an important predictor of business success: associated with both startup persistence and business growth.[4] Outside of a handful of technology startups based in San Francisco, Silicon Valley, and New York, however, most entrepreneurs struggle to raise the capital their businesses need. For the entrepreneurs and small businesses working in the child care industry, the challenges financing startup and growth are magnified.

Nearly half of center-based child care programs are nonprofits or affiliated with schools or other government entities, making them ineligible for federal small business lending programs.

2 Bureau of Labor Statistics. (2021, December) National Establishments by Industry Group and by Size. Quarterly Census of Employment and Wages, First Quarter 2021. U.S. Department of Labor.

3 Census Bureau. Annual survey of Entrepreneurs: 2016. Available: https://www.census.gov/programs-surveys/ase/about.html

4 For an overview of research on the role of capital in new business success see: Hwang, V., Desai, S., and Baird, R. (2019) "Access to Capital for Entrepreneurs: Removing Barriers," Ewing Marion Kauffman Foundation: Kansas City. (pg. 6).

For one, nearly half of center-based child care programs are nonprofits or affiliated with schools or other government entities, making them ineligible for federal small business lending programs.[5] For businesses that can apply for small business or traditional bank loans, the economics of the child care industry make it difficult for entrepreneurs to satisfy traditional underwriting criteria.

Child care is a highly regulated industry with low margins and high fixed costs. Because many families are limited in what they can afford to pay and government subsidies do not cover the full cost of care, most programs operate with margins that barely cover their costs and limited reserves. A study of the finances of providers in Pennsylvania, for example, found that the average child care provider had cash reserves for just five weeks of operating expenses.[6] Payroll is the largest expense for most child care businesses, but the opportunity for providers to improve their margins by lowering staffing costs is constrained by important state regulations that stipulate maximum student to teacher ratios to ensure quality and safety.

On top of these challenges, many of the entrepreneurs running child care businesses face additional barriers to credit. A disproportionate share of entrepreneurs working in child care are women of color, a group that has historically faced the double disadvantage of gender and racial bias that limits access to traditional capital.[7]

While all of these factors make it challenging for child care businesses to access the kinds of financing they need, urgent capital needs and facilities improvements mount.

States require child care facilities to meet rigorous and often expensive health and safety standards. These standards are integral to maintaining quality environments for our youngest children, but also make setting up or expanding a child care business expensive. The ongoing upkeep and maintenance

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5 2019 National Survey of Early Care and Education (NSECE) Quick Tabulation Manual and Codebook Center-based Provider, OPRE Report #2021-[forthcoming], Washington, DC: Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

6 Kristine Alvarez, Alex Epps, Sonia Montoya. (July 2015) "Overcoming Financial Barriers to Expanding High-Quality Early Care & Education in Southeastern Pennsylvania" Nonprofit Finance Fund.

7 Victor Hwang, Sameeksha Desai, Ross Baird. (December 2019) "Access to Capital for Entrepreneurs: Removing Barriers," Ewing Marion Kauffman Foundation: Kansas City; Amy Cha, Hannah Taylor. (2020). "Why Early Care & Education is Foundational to Advancing Racial & Gender Equity." Low Income Investment Fund. Available: https://www.liifund.org/justgoodcapital/2020/06/11/why-early-care-education-is-foundational-to-advancing-racial-gender-equity/

costs for child care facilities are a perennial challenge and can lead to facility issues that impact the health and safety of the children and staff. A US Department of Health and Human Services (HHS) survey of programs in 10 states found that 96% of child care facilities had one or more potentially hazardous facility issue.[8]

Access to lines of credit and working capital are also important for child care businesses, but difficult to access. Child care providers serving low-income communities and those that contract with cities, states, or the federal government to provide pre-K classrooms often rely on a mix of tuition payments from parents and state reimbursements. These businesses need access to working capital to balance their cashflow and manage the gaps that inevitably occur between their expenses and state reimbursements.

In some states, child care operators can access financial incentives and even increase their state-reimbursement rates by achieving a high-quality rating from a state licensing agency. However, attaining a high-quality rating comes with its own financial costs, which might include bringing on more credentialed and expensive staff or renovating spaces to meet higher square footage requirements.[9]

In short, child care businesses have substantial capital needs. While many small businesses struggle to access capital, the challenges in the child care sector are especially acute.

The Potential for New Federal Support

New federal programs and initiatives, like those proposed in the Build Back Better Act or included in COVID recovery packages like the CARES Act or the American Rescue Plan Act, offer the potential for new federal support for early care and education. While many proposals rightfully emphasize the need for new funding to help families afford the cost of child care, the ability of any new initiative to address the large and persistent shortage of high-quality care will be limited until we fully address the barriers child care businesses face accessing capital.

Strategies that address child care supply, like expanding existing programs or opening new sites, will each require substantial financing to pay for facility acquisition, construction, and renovation. There is a need for dedicated facilities financing as well as technical assistance and capacity building for the intermediaries that will deploy it. Federal support that offers families new vouchers, tax credits, or subsidies to address the cost of care are critical, but unless dedicated facility financing that meets the sector's needs is available, families may end up with a voucher and nowhere to take it.

[8] U.S. Department of Health and Human Services. (February 2015) "Child Care Providers Compliance with State Health and Safety Requirements." Office of the Inspector General. Available: https://oig.hhs.gov/oas/child-care/

[9] See: Simon Workman and Steven Jessen-Howard. (November 2018) "Understanding the True Cost of Child Care for Infants and Toddlers." Center for American Progress.

Where Do Child Care Providers Access Capital?

As described above, child care is a difficult industry to finance and many of the entrepreneurs that run programs have historically faced challenges accessing resources to start or grow a business. In our collective experience, child care providers find it difficult to access capital from the traditional lending institutions that support larger and more established businesses in other sectors.

In partnership with NCFN, Reinvestment Fund analyzed and mapped how child care programs across the nation are financed. The following sections describe three important sources of capital for child care businesses: Small Business Administration loans, Community Development Financial Institution investments, and philanthropic grantmaking.

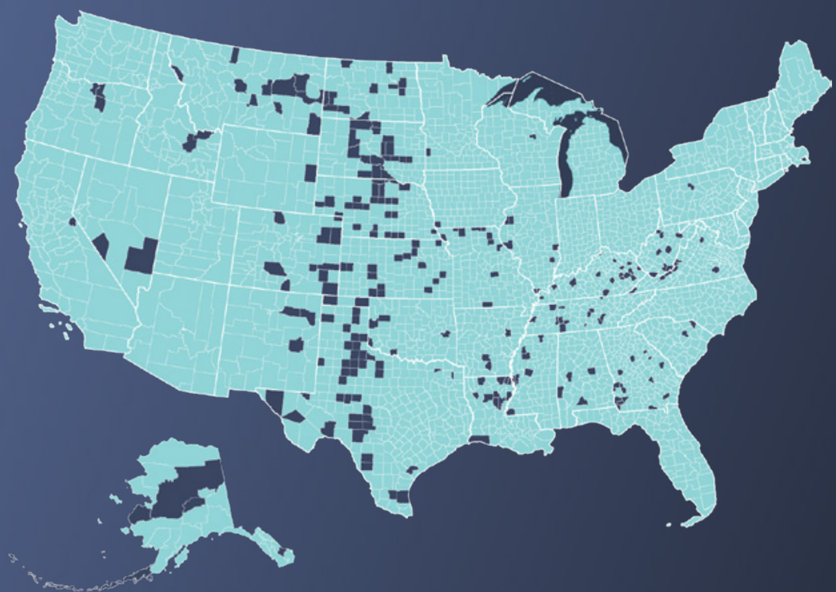
Access to Small Business Administration Loans in the Child Care Sector

The U.S. Small Business Administration (SBA) is a cabinet-level federal agency with the mission to help entrepreneurs start, build, and grow their own businesses. One of the primary ways the SBA encourages lending to small businesses is by reducing risk for private lenders that make loans to small businesses and entrepreneurs. The agency works with financial intermediaries to both guarantee a portion of lenders' loan proceeds and to limit the interest rates and fees paid by borrowers.

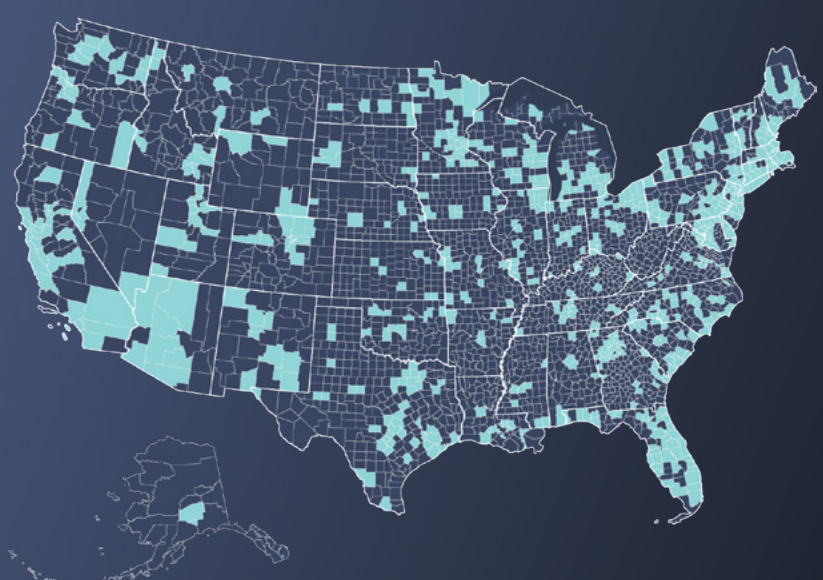
Most SBA support has historically come through the 7(a) program. A 7(a) loan can be used for a broad

Between 2016 and 2020, SBA programs supported $3.8 billion in lending to child care businesses.

Counties with Any SBA Activity (2016 - 2020)



Counties with SBA Activity in Child Care (2016 - 2020)



range of business purposes.[10] Between 2016 and 2020, over 250,000 loans were originated under the 7(a) program, of which 3,454 (about 1%) went to child care businesses.[11] The SBA also operates a much smaller loan program for real estate and construction costs, called the 504 loan program. Over the same period, almost 29,000 loans were originated under the 504 loan program, of which 778 went to child care businesses. Through the 7(a) and 504 loan programs, the SBA supported the investment of almost $3.8 billion to the child care sector between 2016 and 2020.

SBA loans are a critical, but limited, source of capital for the child care industry. For one, nonprofit businesses cannot participate in the SBA's 7(a) or 504 loan programs. While many child care businesses are organized as for-profits, many are not. A 2019 national survey of center-based programs found that 47% of child care centers were organized as nonprofits, and were thus ineligible for an SBA loan.[12]

Analyzing where and how child care businesses access SBA loans reveals two important lessons about how the program does and does not serve child care businesses. First, while in general SBA loans are widely available across the country, the use of SBA loans among child care businesses is much more concentrated. Between 2016 and 2020, around 92% of counties in the US had SBA loan activity, while only 22% had SBA loans made to child care businesses. During that same period, most child care businesses that received an SBA loan were in larger urban counties. The average population of a county with at least one SBA loan in any sector was close to 110,000. In comparison, in counties where SBA child care lending occured, the average population was just over 350,000.

Second, most SBA loans are only reaching a small segment of the child care sector: the largest and most established operators who often manage regional or national chains of child care programs. From 2016 to 2020, the average size of a loan to a child care business was almost $900,000, around double the typical loan size in other sectors ($467,607). Child care businesses that can access an SBA loan tend to be larger than other businesses that participate in the program, even though nationally, most child care businesses are very small. The average 7(a) loan supported 10 jobs for a typical business, but 19 for a child care

10 For more information see: https://www.sba.gov/funding-programs/loans/7a-loans

11 Throughout we define child care businesses using NAICS industry codes (i.e., 624410) attached to individual transactions.

12 NSECE Project Team (National Opinion Research Center). National Survey of Early Care and Education (NSECE), , 2019. Inter-university Consortium for Political and Social Research, 2021-09-27. https://doi.org/10.3886/ICPSR37941.

business. By way of comparison, nationally, the average child care business has 11 employees.[13]

While in other sectors, small working capital loans for amounts of $50,000 or less comprise about 27% of loan volume, in the child care sector, these small loans are less common, making up just 13% of loans.

Access to CDFI Investments in the Child Care Industry

Community Development Financial Institutions (CDFIs) are mission-driven organizations created to expand access to credit, availability of financial services, and investment capital in low-wealth and under-resourced communities.

As community facilities that support the social, emotional, and educational development of children, as well as small businesses often led by historically disadvantaged entrepreneurs, child care providers are a strong fit for the mission and focus of many CDFIs. Unlike SBA lenders, CDFIs are not restricted by a child care program's for-profit or nonprofit status.

[13] U.S. Bureau of Labor Statistics. National NAICS 6244 Employment. Quarterly Census of Employment and Wages, First Quarter 2021. U.S. Department of Labor.

PPP and Child Care Businesses

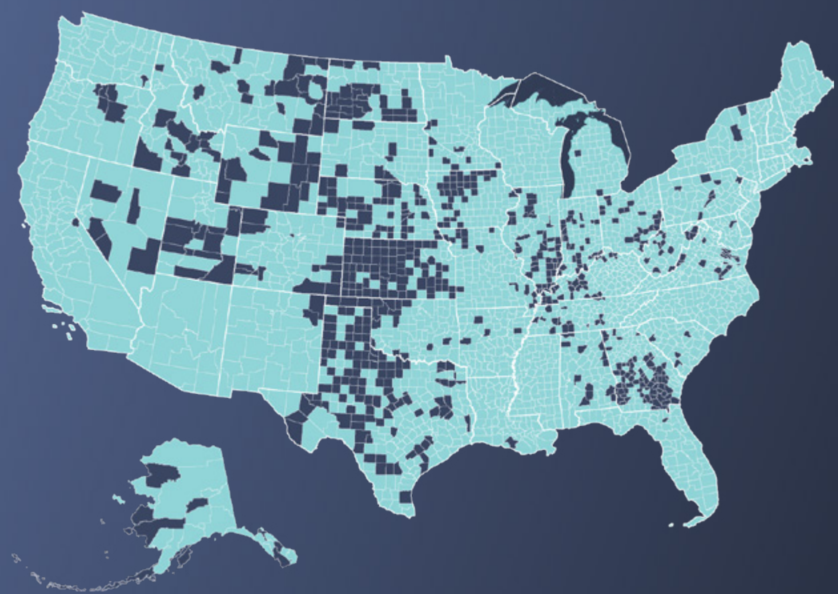
In response to the COVID-19 pandemic, Congress created the Paycheck Protection Program (PPP), an SBA-backed forgivable loan program to help businesses keep their workforce employed during the crisis. Although it was only a temporary measure, PPP activity shows how under different circumstances, SBA loans can work for a larger share of child care businesses than traditional SBA programs.

Unlike other SBA programs, PPP was open to nonprofits, increasing accessibility for a wider array of child care businesses. PPP loans also tended to be smaller—the average PPP loan in child care was just under $70,000—and had forgivable terms, which made it easier for businesses with challenged finances to access resources. Additionally, the program attracted mission-driven intermediaries that were committed to helping underserved businesses access the program.[14]

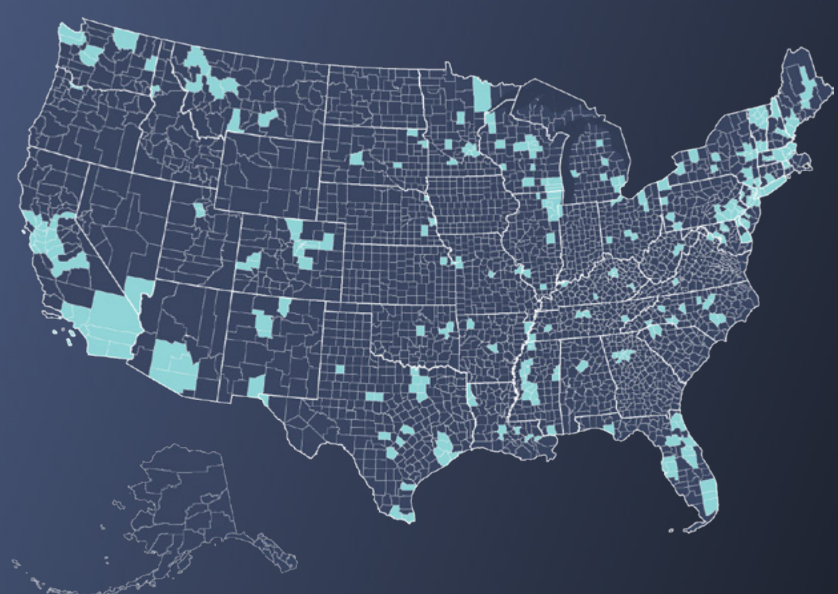
As a result, the profile of child care businesses that accessed PPP was different than child care businesses that used the SBA 7(a) or 504 programs. PPP lenders made a greater number of small micro-loans to child care businesses—the average child care program participating in PPP borrowed just $75,000, compared with nearly $900,000 in other SBA programs. Additionally, PPP lenders were able to work with smaller businesses. The average child care business that participated in PPP supported 14 jobs. Child care businesses that participate in other SBA programs are larger, supporting an average of 19 jobs. The PPP program also reached more rural and suburban areas. Just 6% of SBA loans to child care businesses were in counties with a population under 100,000, compared with 15% of PPP loans.

[14] U.S. Bureau of Labor Statistics. National NAICS 6244 Employment. Quarterly Census of Employment and Wages, First Quarter 2021. U.S. Department of Labor.

Counties with Any CDFI Activity (2015 - 2019)



Counties with CDFI Activity in Child Care (2015 - 2019)



While the low margins and limited cash reserves in the child care industry make it difficult for these businesses to access credit from some traditional lenders, the foundational mission of CDFIs enables them to offer more concessionary terms in recognition of the important role child care plays in supporting community wellbeing. Many CDFIs are working to craft training and technical assistance programs that, together with loans, target the specific needs of child care businesses.[15]

Financial support to child care businesses makes up a small but growing portion of many CDFIs' businesses. To understand more about how and where CDFIs are investing in the child care sector, we analyzed data from the CDFI Fund's Awards Management Information System (AMIS). CDFIs that receive financial assistance from the CDFI Fund are required to submit to AMIS annual reports describing all of their transactions, which are then anonymized and released publicly. ***These data do not capture the universe of all CDFI activity in the sector—notably they only include CDFIs with an award from the CDFI Fund (approximately 44% of all certified CDFIs) and exclude CDFIs' technical assistance and grantmaking activities in the child care sector—but these data do help illustrate how CDFIs are filling the gaps left by larger small business loan programs like those from the SBA.***[16]

Between 2015 and 2019, CDFIs in our dataset were involved in 1,319 transactions with child care businesses. Most of these transactions (76%) were small micro-loans under $50,000—precisely the kinds of small business loans that were under-represented in the SBA program. But child care is still a small segment of most CDFIs' lending activity. The $143 million that CDFIs invested in child care between 2015 and 2019 was less than 1% of aggregate CDFI lending activity. CDFIs are much more active in other segments of the education sector. Over the same period, CDFIs invested nearly $1.1 billion in other education-focused projects to serve K-12 and post-secondary institutions.

Geographically, CDFIs play an important role in meeting the unmet needs of many communities across the US. Although most communities have benefited from CDFI lending activity, the reach of CDFIs with experience in child care is limited. Counties where CDFIs work with child care businesses tended to be the

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[15] Rob Grunewald, Ben Horowitz. (June 2020) "What Works in Supporting Early Care and Education: CDFIs Tackle Market Challenges." Federal Reserve Bank of Minneapolis. Available: https://www.minneapolisfed.org/article/2020/what-works-in-supporting-early-care-and-education-cdfis-tackle-market-challenges

[16] As of August, 2019 there were 1,076 certified CDFIs. The data described here captures information from 469 unique organizations (44%). See https://www.richmondfed.org/-/media/richmondfedorg/community_development/resource_centers/cdfi/pdf/cdfi_report_2019.pdf

largest urban counties. Between 2015 and 2019, CDFIs were active in 77% of counties nationwide, but completed transactions with child care businesses in only 10% of counties. The average county with at least one CDFI child care transaction between 2015 and 2019 had a population just under 575,000. The average county with any CDFI transaction had a population close to 130,000, while the average US county had a population just over 100,000. Rural counties with a population below 50,000 are home to 12% of children under the age of five, but just 6% of CDFI transactions with child care businesses were in rural counties. While CDFIs play an important role in supporting the financial needs of small child care businesses, where they do this work is geographically constrained.

Access to Philanthropic Resources in the Child Care Sector

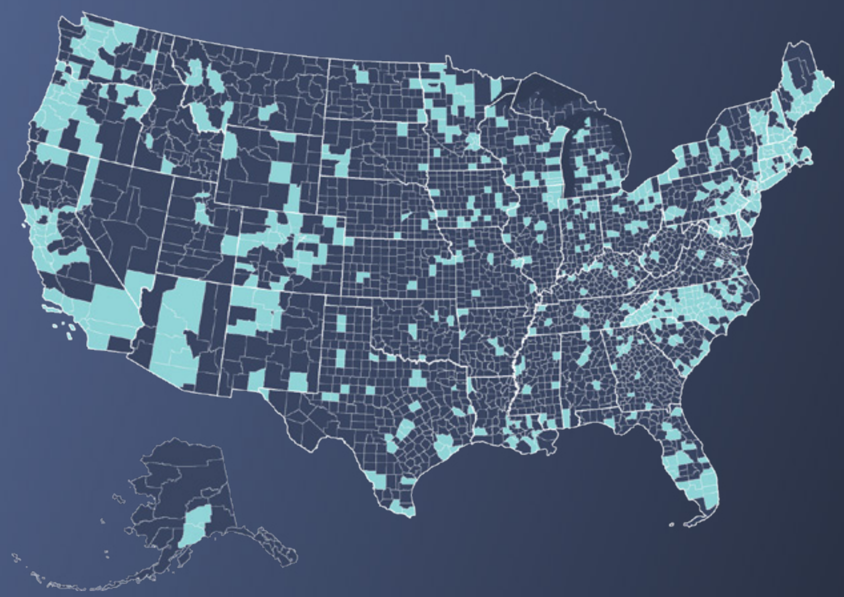
Child care businesses are unique in that they perform both economic and social functions. Nobel Prize-winning economist James Heckman's work has highlighted the role of child care and early childhood education as a critical social investment with a higher "return" than many other social programs or interventions.[17] As a result, social investors and foundations have taken an interest in supporting access to early childhood education through investments in the child care sector.

To understand the role of philanthropic grantmaking in the child care sector, we partnered with Candid, a data science company that tracks grantmaking activity across the United States. Using their comprehensive database of grantmaking activity, we were able to analyze the characteristics of foundations and grants focused on young children and families between 2016 and 2020. Our analysis focused on all grants over $50,000 intended to serve children ages five and under.

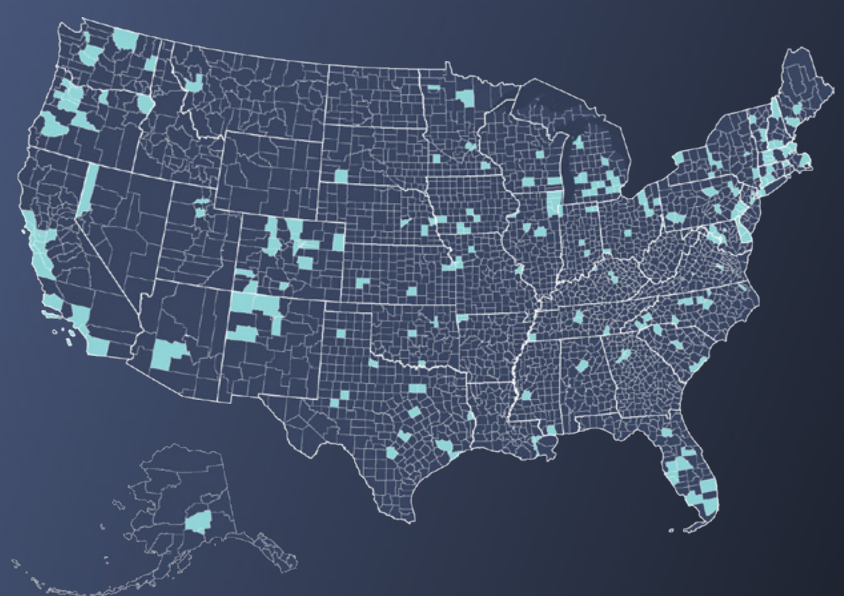
In total we identified 1,821 foundations that made 6,868 grants toward children and families, totaling $2.3 billion over five years. Most of the philanthropies studied are local foundations that make grants in only a single county. Close to 40% of all child care grants between 2016 and 2020 were from local organizations.

17 See: https://heckmanequation.org/the-heckman-equation/

Counties with Children/Families Grantmaking (2016 - 2020)



Counties with Child Care Business Grantmaking (2016 - 2020)



But national funders also play an important role in supporting the sector. Nearly a quarter of grants made between 2016 and 2020 were issued by national foundations that made grants across three or more states—and their grants were generally for larger amounts, over $500,000 on average, compared with an average amount under $250,000 for local foundations.

These grants funded a range of activities and strategies, many of which were not specifically related to child care. To understand more about where foundations were supporting child care businesses, we analyzed Candid's data to identify grants specifically focused on supporting child care businesses through activities such as facilities expansion, program creation, business supports, and technical assistance. In total, 13% of all grants analyzed (869) funded child care business supports. Between 2016 and 2020 these grants total $428 million in support for child care.

Between 2016 and 2020, foundations directed $428 million in grants to support the business needs of child care providers.

Because most foundations that invest in child care work locally, the reach of foundations that support child care businesses is very limited. Just 19% of U.S. counties had a single grant over $50,000 intended to support children and families, and only 7% of counties had grants focused on child care business supports. Counties where foundations were working to support children and families tended to be larger and more urban than the rest of the country. The average county has a population of just over 100,000, while the average population among counties where a foundation made at least one grant to children and families was nearly 370,000. Counties with at least one grant to support child care businesses had an average population of over 600,000.

Nurturing an Ecosystem to Support Child Care Businesses

A robust child care industry requires a financial infrastructure that can support the capital needs of the sector's businesses: start-up funding to create new child care programs, funds to support stabilization and maintenance of the industry and growth capital to support facility expansion, quality improvement, and program replication. The analysis described in this document was intended to highlight the availability of resources from SBA loan programs, CDFIs, and philanthropy that support child care businesses and the gaps in that availability.

As we look across each of the different types of resources, two high-level findings are apparent. First, access to resources from SBA lenders, CDFIs, and foundations is uneven and relies on the presence of institutions that both recognize the importance of the sector and understand its needs. Second, communities that have high levels of activity from one source tend to have high levels of activity across all sources. Communities with robust levels of grantmaking, for example, tend to also have high levels of CDFI and SBA lending, and vice versa.

This second finding points to a truth that we have observed in our collective work as CDFIs supporting child care across multiple cities and states: communities with the strongest child care sectors are those where stakeholders from the child care, philanthropic, banking, and community finance sectors work together to identify and fill gaps in the availability of resources that child care businesses need. The challenges in the child care sector are too great for one organization or one sector to solve alone. Strong organizations with an orientation toward collaboration tend to attract other strong organizations, and their presence can mean the difference between a sector that is treading water and one that is poised to grow and thrive.

Communities with the strongest child care sectors are those where stakeholders from the child care, philanthropic, banking, and community finance sectors work together to identify and fill gaps in the availability of resources that child care businesses need.

Philadelphia Case Study

The experience in Philadelphia, described below, where Reinvestment Fund has been working for years with strong foundation and banking partners, offers one example of how collaboration between different stakeholders can lead to transformative impacts.

The City of Philadelphia consistently ranks at or near the top of every metric used to measure investment activity in child care businesses: loans from SBA lenders or CDFIs, and grants. The robust activity in the city's child care sector is a result of years of collaboration between major stakeholders and institutions.

The city's Fund for Quality and ECE Loan Fund are two collaborations that illustrate how different sectors can work together to support high quality child care. Fund for Quality is an innovative partnership between two of the region's largest philanthropies (William Penn Foundation and The Vanguard Strong Start for Kids Program™), a CDFI (Reinvestment Fund), and a quality-improvement technical assistance provider (Public Health Management Corporation, or PHMC).

With seed funding from the two foundations, Reinvestment Fund and PHMC created the Fund For Quality to support the expansion of high-quality child care programs in areas of the city with the greatest shortages in care. The fund provides grant resources to support project predevelopment planning and capital funding for program expansion projects in high need areas. Grant resources in the sector is supplemented with Reinvestment Fund's lending capital and the ECE Loan Fund, a revolving loan fund that leverages philanthropic dollars to offer flexible financing to child care businesses at below market fixed interest rates and with minimal collateral requirements.

The combination of targeted technical assistance to help providers develop a strategic expansion plan, planning and capital grants, and low-cost capital has helped the city dramatically expand access to high-quality child care. Since the program began in 2014, CDFIs in Philadelphia have completed 57 child care loans totaling $9.7 million, and foundations have made 15 grants totaling $15 million toward child care business supports. Over the same period, the number of high-quality seats in Philadelphia has grown by 49%, with an average of 1,875 new high-quality seats added each year.[18]

The availability of grant-funded technical assistance to help providers improve their business practices and financial sustainability through the Fund For Quality and other programs, like the city's Fiscal Hub, have opened doors for providers to access low-cost capital not only from CDFIs, but also traditional lending institutions. Philadelphia was the 37th most active county for SBA loans to child care businesses prior to 2014. Today it is the 4th most active county for SBA lending to child care businesses. Since 2016, SBA lenders have completed 47 loans to child care businesses totaling $23.4 million.

[18] Jacob Rosch, Emily Dowdall, Ira Goldstein (2021). "Estimating Changes in the Supply of and Demand for Child Care in Philadelphia." Reinvestment Fund. Available: https://www.reinvestment.com/wp-content/uploads/2021/10/ReinvestmentFund_Report-PHL-Childcare-WPF.pdf

In short, connections between the different funders in a community is critical. However, our analysis suggests that the number of communities where this kind of multi-sector work is taking place is small. While we can spotlight many communities where resources from every sector are flowing into child care, there are more communities where such resources are not reaching child care businesses. Looking across the three types of child care funders described in these data, we can see that only 166 of the 3,142 counties and county equivalents in the US have SBA lending, CDFI lending, and philanthropic activity working to financially support child care businesses.

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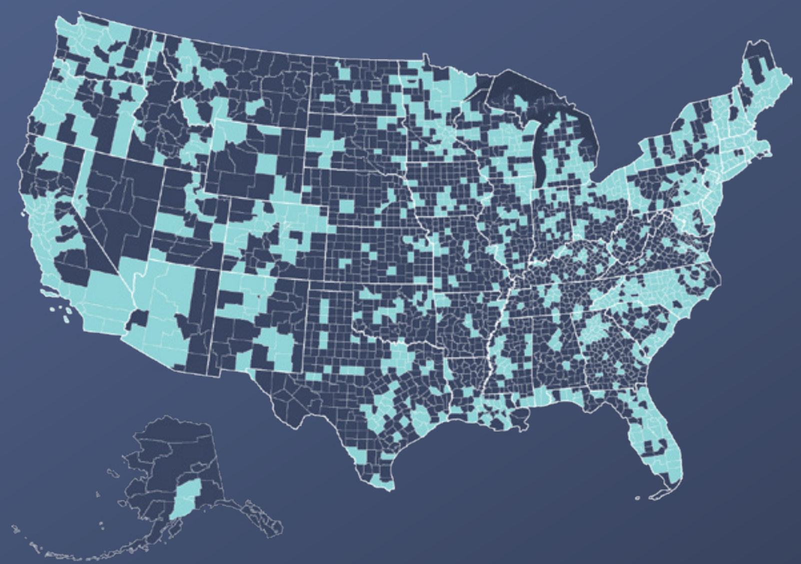
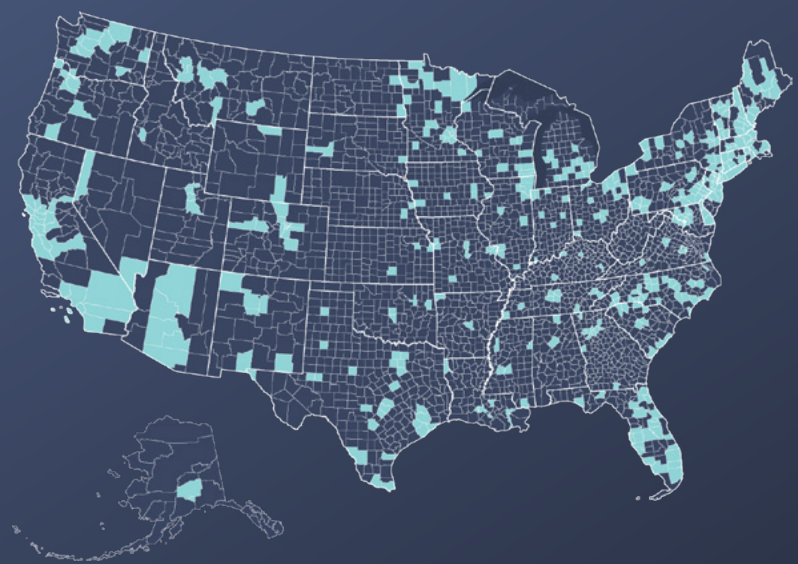
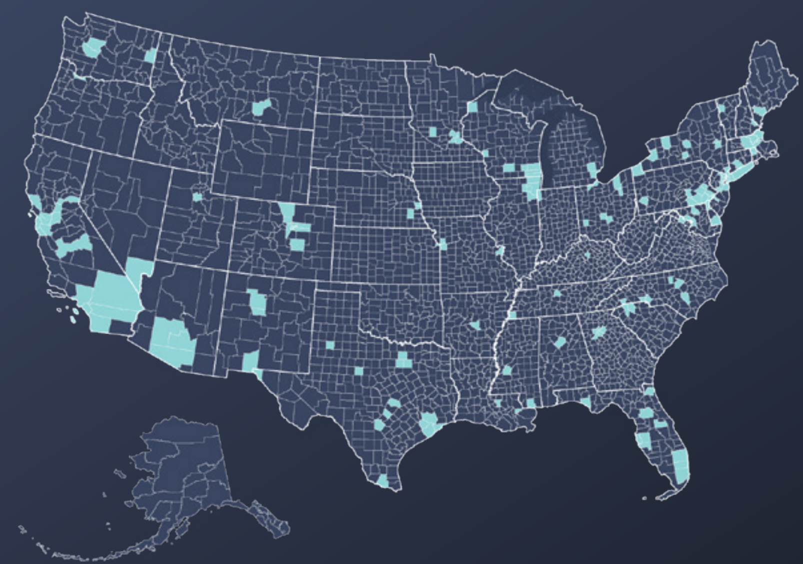
Financing From At Least One Source



Financing From At Least 2 Sources



Financing From All 3 Sources



New Resources to Support the Sector

To further local efforts to understand and address barriers to resources in local communities, we are working to create an online tool that allows users to customize the data described in this report for their own communities. The tool will summarize data from each of the different datasets presented above and compare them geographically so that users can identify factors like the volume of child care grantmaking in their community or presence of SBA and CDFI lenders that work with child care businesses.

Most importantly, the tool will allow users to identify areas where the presence of different types of capital overlap (or where they do not). For example, a CDFI might use the tool to identify the counties in their footprint with established philanthropic sectors but little to no CDFI activity. Alternatively, a bank with an interest in using child care investments to fulfill its Community Reinvestment Act commitments could use the tool to identify counties where CDFIs and foundations are already working to support child care businesses.[19]

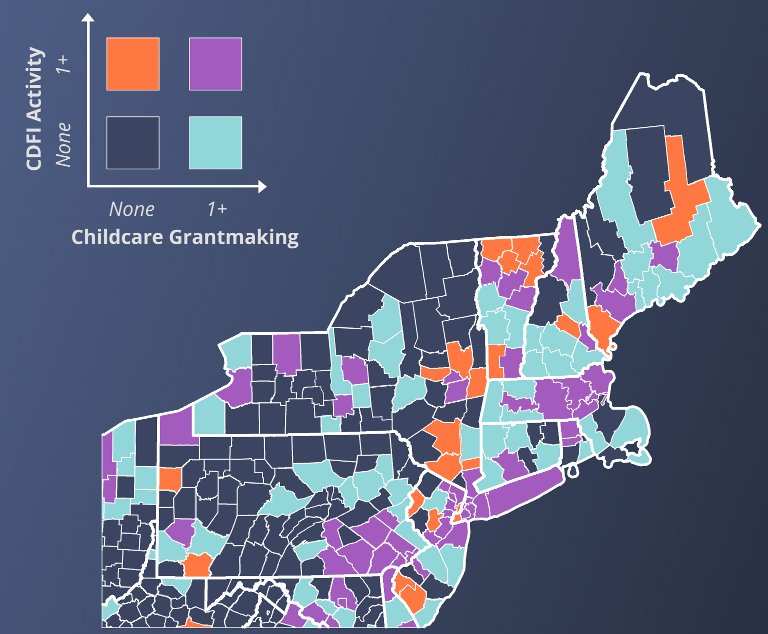
Next Steps and Future Directions for Research and Advocacy

The National Children's Facilities Network is working to increase supply and help improve the quality of early childhood education by providing technical assistance and financing to address the capital needs in the child care industry. This report was intended as an initial exploration into how and where financial resources are flowing into the child care sector. Our findings point to five next steps for stakeholders working to build a high-quality child care sector:

- **Understand More About the Conditions Under Which SBA Lenders Support Child Care.** SBA programs are the largest source of capital for child care businesses studied here. Lenders are already working with small businesses in nearly every community in the country, but their activities to support child care businesses are much more limited. Of the nearly 4,000 institutions that made loans through the SBA program between 2016 and 2020, for example, only 825 (20%) worked with a child care business. The data described in this report could help us identify many success stories — banks

[19] Rob Grunewald, Ben Horowitz. (January 2021) "How Early Care and Education Intersects with the CRA" Federal Reserve Bank of Minneapolis. Available: https://www.minneapolisfed.org/article/2021/how-early-care-and-education-intersects-with-the-cra

Illustration of Northeast Counties with Child Care Grantmaking & CDFI Activity (2015 – 2020)



in urban, rural, and suburban areas that are actively working with child care businesses – but also many examples of similar banks and communities where this activity is not occurring. Understanding more about the challenges child care businesses face in accessing SBA programs and how banks have overcome them will point to new avenues for assistance and advocacy to help expand the sector's access to financial resources.

- **Develop Targeted Assistance and Outreach to Encourage Greater CDFI Participation in Child Care.** Child care fits squarely within the mission of many CDFIs, yet the child care sector remains a small financing niche within the industry. Moreover, even among CDFIs that are working in the child care sector, activity remains concentrated within a few, primarily urban communities. While the number of CDFIs working with child care businesses is growing, more work is needed to help CDFIs understand how to use their existing programs and expertise to support the industry.

- **Further Develop Our Understanding of Resources and Capital in the Child Care Sector.** This paper focused on three sources of capital for child care businesses: SBA loans, CDFI loans, and philanthropic grants. But there are other resources that are critical for the sector. Incorporating information on public funding, business supports and technical assistance from community stakeholders like child care resource and referral agencies and others would further our understanding of the local conditions that help support child care providers. These efforts could also help us build bridges between the financial intermediaries investing in child care and the practitioners and technical assistance providers that support the child care sector.

- **Research Best Practices for Supporting Local Child Care Communities.** The data and research described here helps identify communities where different sectors are working together to support child care and many communities where this activity is not occurring. Documenting the local policies, programs, and practices in communities where different sectors are working together would help us understand and codify best practices for supporting the financial infrastructure that child care businesses need to grow and thrive.

- **Continue to Advocate for Greater Resources in the Sector.** The level of funding in the child care sector makes it challenging for providers to build a sustainable business that has the capacity to borrow or take on debt in a responsible way. In other developed nations, the government spends an average of $14,000 per year on toddlers, compared with just $500 in the US.[20] Many families are already constrained in how much more they can afford to pay for child care. Until the federal government increases funding for young children, businesses in the sector will continue to struggle.

[20] Claire Cain Miller. "How Other Nations Pay for Child Care. The U.S. Is an Outlier" New York Times. October 6, 2021. Available: https://www.nytimes.com/2021/10/06/upshot/child-care-biden.html

Appendix I: Data Summary

SBA Loans (7a and 504), 2016 to 2020

	Non-Child Care Businesses	Child Care Businesses	All Loans
Total Loans	278,532	4,232	282,764
Aggregate Loan Volume	$130,244,433,013	$3,784,227,656	$134,028,660,669
Average Loan	$467,610	$894,194	$473,995
Loans 25th Percentile	$50,000	$144,575	$50,000
Loans 50th Percentile	$150,000	$413,000	$156,000
Loans 75th Percentile	$496,800	$1,055,050	$500,000

SBA Loans (7a and 504) by State, 2016 to 2020

	All Loans	All Loan Volume	Lenders	Childcare Loans	Child Care Loan Volume	Childcare Lenders	Population (Under 5)	Child Care Business Loans Per 100k Children	Child Care Business Loan Volume Per Child
AK	526	$304,020,600	8	5	$1,963,900	3	52,161	9.6	$37.65
AL	1,993	$1,121,522,403	39	19	$19,146,400	5	293,187	6.5	$65.30
AR	1,540	$855,260,755	30	17	$15,295,700	5	189,636	9.0	$80.66
AZ	5,689	$3,171,598,150	46	70	$37,635,700	11	433,968	16.1	$86.72
CA	37,240	$23,228,807,042	289	287	$239,001,600	65	2,451,528	11.7	$97.49
CO	7,288	$3,943,300,442	87	89	$120,306,300	13	334,032	26.6	$360.16
CT	3,225	$1,103,479,296	41	43	$31,609,700	10	183,808	23.4	$171.97
DC	468	$189,675,700	1	11	$8,982,600	2	45,040	24.4	$199.44
DE	769	$288,972,100	9	17	$10,785,800	3	54,830	31.0	$196.71
FL	17,231	$9,271,041,753	198	403	$410,868,900	48	1,128,214	35.7	$364.18
GA	7,994	$6,092,007,680	134	205	$268,530,790	33	656,677	31.2	$408.92
HI	1,101	$247,317,496	17	2	55000	2	88,842	2.3	$0.62
IA	1,988	$866,871,609	120	39	15312620	19	196,427	19.9	$77.96

	All Loans	All Loan Volume	Lenders	Childcare Loans	Child Care Loan Volume	Childcare Lenders	Population (Under 5)	Child Care Business Loans Per 100k Children	Child Care Business Loan Volume Per Child
ID	2,793	$964,332,910	33	46	$15,425,600	10	114,361	40.2	$134.89
IL	9,440	$4,795,150,265	225	172	$140,868,700	44	767,193	22.4	$183.62
IN	6,238	$2,559,396,665	115	35	$31,372,100	9	418,685	8.4	$74.93
KS	2,079	$952,298,100	88	45	$39,562,157	16	191,113	23.5	$207.01
KY	2,222	$829,590,975	47	26	$18,176,600	5	274,592	9.5	$66.19
LA	1,787	$1,025,498,697	55	27	$11,228,225	9	307,435	8.8	$36.52
MA	10,226	$2,255,366,640	148	104	$61,224,500	26	361,016	28.8	$169.59
MD	4,550	$1,690,846,400	33	88	$69,812,700	11	364,868	24.1	$191.34
ME	1,573	$404,132,383	47	16	$3,578,000	8	64,035	25.0	$55.88
MI	11,133	$3,720,545,531	136	94	$51,224,653	20	571,094	16.5	$89.70
MN	8,459	$3,192,441,453	242	133	$100,640,400	41	351,664	37.8	$286.18
MO	5,427	$2,597,269,814	144	86	$56,416,700	27	371,570	23.1	$151.83
MS	1,738	$723,983,282	23	25	$6,907,200	4	186,647	13.4	$37.01
MT	1,187	$418,780,154	31	7	$2,693,000	2	61,035	11.5	$44.12
NC	5,886	$3,718,474,760	62	117	$151,267,100	16	605,125	19.3	$249.98
ND	1,013	$331,526,083	54	20	6481100	8	53,215	37.6	$121.79
NE	1,673	$659,478,106	71	47	$26,691,846	15	131,473	35.7	$203.02
NH	2,691	$593,547,586	41	32	$10,502,900	12	63,843	50.1	$164.51
NJ	8,599	$3,743,589,994	66	180	$162,946,501	15	519,524	34.6	$313.65
NM	1,301	$621,804,087	32	18	$12,233,600	6	126,150	14.3	$96.98
NV	2,661	$1,301,223,157	28	33	$34,938,700	4	183,534	18.0	$190.37
NY	17,531	$5,461,081,690	127	198	$80,432,800	30	1,154,201	17.2	$69.69
OH	14,777	$4,425,504,531	134	204	$108,712,600	26	694,711	29.4	$156.49
OK	2,483	$1,188,182,194	80	28	$20,960,700	14	261,316	10.7	$80.21
OR	4,216	$1,952,121,750	49	29	$19,612,900	4	230,557	12.6	$85.07
PA	8,797	$3,456,711,494	112	165	$100,594,500	28	706,563	23.4	$142.37
RI	1,529	$390,456,135	24	24	$5,837,900	7	54,672	43.9	$106.78
SC	2,494	$1,554,746,321	28	47	$48,808,400	8	290,931	16.2	$167.77
SD	924	$394,150,934	43	19	$7,074,800	9	58,930	32.2	$120.05

	All Loans	All Loan Volume	Lenders	Childcare Loans	Child Care Loan Volume	Childcare Lenders	Population (Under 5)	Child Care Business Loans Per 100k Children	Child Care Business Loan Volume Per Child
TN	2,295	$1,372,554,446	40	34	$35,580,335	7	406,438	8.4	$87.54
TX	20,830	$13,045,392,718	240	564	$891,238,229	82	1,999,803	28.2	$445.66
UT	5,474	$2,723,867,765	49	66	$38,022,000	11	250,885	26.3	$151.55
VA	5,490	$2,676,811,154	88	85	$96,295,800	12	508,399	16.7	$189.41
VT	1,097	$201,297,621	22	12	$2,989,400	6	29,568	40.6	$101.10
WA	7,514	$4,113,171,600	69	80	$74,980,100	11	454,364	17.6	$165.02
WI	6,390	$2,897,704,628	156	109	$55,901,400	33	333,184	32.7	$167.78
WV	707	$199,925,846	20	1	$50,000	0	97,540	1.0	$0.51
WY	488	$191,827,774	18	9	3448500	2	36,541	24.6	$94.37

CDFI Loans, 2015 to 2019

	Non-Child Care Businesses	Child Care Businesses	All Loans
Total Loans	425,708	1,319	427,027
Aggregate Loan Volume	$34,451,276,520	$143,235,534	$34,594,512,054
Average Loan	$80,927	$108,594	$81,012
Loans 25th Percentile	$2,500	$6,131	$2,500
Loans 50th Percentile	$6,100	$15,535	$6,184
Loans 75th Percentile	$52,500	$50,000	$52,500

CDFI Loans by State, 2015 to 2019

	All Loans	All Loan Volume	Lenders	Childcare Loans	Child Care Loan Volume	Childcare Lenders	Population (Under 5)	Child Care Business Loans Per 100k Children	Child Care Business Loan Volume Per Child
AK	342	$139,945,684	14	0	$0	0	52,161	0.0	$0.00
AL	1309	$272,216,784	40	3	$45,725	1	293,187	1.0	$0.16
AR	6264	$1,060,898,246	49	8	$2,555,235	3	189,636	4.2	$13.47
AZ	4070	$336,769,338	53	57	$372,066	3	433,968	13.1	$0.86
CA	60775	$4,064,418,726	114	148	$11,164,761	16	2,451,528	6.0	$4.55
CO	3046	$203,993,311	59	22	$1,328,521	3	334,032	6.6	$3.98
CT	1336	$204,033,827	39	1	$15,100	1	183,808	0.5	$0.08
DC	364	$356,517,248	35	12	$1,228,213	4	45,040	26.6	$27.27
DE	242	$92,557,406	25	3	$255,000	1	54,830	5.5	$4.65
FL	28700	$3,129,446,061	94	33	$5,038,526	10	1,128,214	2.9	$4.47
GA	1758	$349,293,502	71	21	$9,365,619	6	656,677	3.2	$14.26
HI	544	$117,215,884	21	0	0	0	88,842	0.0	$0.00
IA	3257	$255,652,825	33	0	0	0	196,427	0.0	$0.00
ID	942	$85,072,362	22	1	$5,700	1	114,361	0.9	$0.05
IL	5354	$1,456,365,689	74	51	$9,007,688	11	767,193	6.6	$11.74

	All Loans	All Loan Volume	Lenders	Childcare Loans	Child Care Loan Volume	Childcare Lenders	Population (Under 5)	Child Care Business Loans Per 100k Children	Child Care Business Loan Volume Per Child
IN	8573	$227,437,921	49	1	$7,435	1	418,685	0.2	$0.02
KS	277	$89,900,454	29	2	$876,000	1	191,113	1.0	$4.58
KY	1970	$322,144,325	35	10	$269,360	2	274,592	3.6	$0.98
LA	7833	$1,402,887,287	56	12	$6,089,643	4	307,435	3.9	$19.81
MA	7903	$527,156,740	51	37	$2,722,161	5	361,016	10.2	$7.54
MD	1797	$273,523,453	54	5	$87,192	2	364,868	1.4	$0.24
ME	465	$86,869,987	22	12	$2,654,885	2	64,035	18.7	$41.46
MI	4496	$564,397,506	56	16	$2,384,148	8	571,094	2.8	$4.17
MN	6083	$961,278,625	59	38	$3,806,550	9	351,664	10.8	$10.82
MO	5552	$814,081,776	49	15	$4,273,197	7	371,570	4.0	$11.50
MS	32314	$5,792,821,751	50	42	$6,938,637	9	186,647	22.5	$37.18
MT	2223	$90,545,523	23	11	$1,543,366	1	61,035	18.0	$25.29
NC	21020	$892,294,158	73	17	$2,004,575	4	605,125	2.8	$3.31
ND	520	$52,875,868	15	0	0	0	53,215	0.0	$0.00
NE	8279	$63,106,360	26	18	$576,650	2	131,473	13.7	$4.39
NH	599	$109,528,777	24	3	$793,460	1	63,843	4.7	$12.43
NJ	11049	$398,173,368	58	135	$19,911,712	11	519,524	26.0	$38.33
NM	6757	$455,789,761	33	34	$1,178,146	2	126,150	27.0	$9.34
NV	822	$105,994,482	28	1	$11,000	1	183,534	0.5	$0.06
NY	97992	$1,722,570,591	106	231	$14,402,249	18	1,154,201	20.0	$12.48
OH	2212	$473,939,224	63	32	$1,349,056	2	694,711	4.6	$1.94
OK	7869	$260,174,270	34	4	$484,533	2	261,316	1.5	$1.85
OR	2910	$357,254,832	45	1	$30,000	1	230,557	0.4	$0.13
PA	3346	$507,561,611	69	87	$9,479,107	13	706,563	12.3	$13.42
RI	2107	$60,896,494	19	7	$1,165,000	2	54,672	12.8	$21.31
SC	3049	$576,090,974	47	2	$10,000	1	290,931	0.7	$0.03
SD	1051	$45,954,612	17	6	$139,800	2	58,930	10.2	$2.37
TN	3256	$667,549,651	63	13	$984,380	4	406,438	3.2	$2.42
TX	30937	$1,393,246,766	102	63	$4,535,659	6	1,999,803	3.2	$2.27

	All Loans	All Loan Volume	Lenders	Childcare Loans	Child Care Loan Volume	Childcare Lenders	Population (Under 5)	Child Care Business Loans Per 100k Children	Child Care Business Loan Volume Per Child
UT	2898	$469,470,997	25	6	$533,600	2	250,885	2.4	$2.13
VA	1907	$498,100,959	60	3	$1,526,000	1	508,399	0.6	$3.00
VT	779	$127,969,514	20	16	$720,670	3	29,568	54.1	$24.37
WA	5441	$464,810,781	66	14	$4,607,620	4	454,364	3.1	$10.14
WI	14137	$1,569,094,578	49	64	$6,724,590	6	333,184	19.2	$20.18
WV	261	$42,306,637	19	1	$33,000	1	97,540	1.0	$0.34
WY	40	$2,314,551	10	0	0	0	36,541	0.0	$0.00

Foundation Grantmaking, 2016 to 2020

	Other Child Care Grants	Facility/Expansion Focused Grants	All Grants
Total Grants	6,000	869	6,869
Aggregate Grants	$1,875,110,639	$428,282,987	$2,303,393,626
Average Grants	$312,518	$492,845	$335,332
Grants 25th Percentile	$63,157	$80,000	$65,000
Grants 50th Percentile	$100,000	$150,000	$104,653
Grants 75th Percentile	$250,000	$395,800	$250,858

Foundation Grantmaking by State, 2016 to 2020

	All Grants	All Grant Volume	Grant Makers	Facility/ Exp. Grants	Facility/Exp. Grant Volume	Facility/ Exp. Grant Makers	Population (Under 5)	All Grants Per 100k Children	All Grant Volume Per Child
AK	22	$2,793,017	5	3	$571,683	1	52,161	5.8	$10.96
AL	33	$6,770,461	22	1	$100,000	1	293,187	0.3	$0.34
AR	13	$15,860,269	6	1	$13,448,579	1	189,636	0.5	$70.92
AZ	63	$29,510,959	30	6	$1,999,469	6	433,968	1.4	$4.61
CA	920	$263,509,980	274	93	$33,997,048	44	2,451,528	3.8	$13.87
CO	337	$58,434,505	71	53	$14,605,159	22	334,032	15.9	$43.72
CT	167	$33,944,424	59	11	$3,341,500	10	183,808	6.0	$18.18
DC	241	$106,317,601	89	24	$11,366,141	12	45,040	53.3	$252.36
DE	38	$5,176,296	13	12	$1,978,440	6	54,830	21.9	$36.08
FL	197	$35,669,482	86	18	$4,638,249	13	1,128,214	1.6	$4.11
GA	129	$92,503,377	49	30	$36,454,443	16	656,677	4.6	$55.51
HI	74	$8,229,824	14	17	$1,530,000	4	88,842	19.1	$17.22
IA	75	$18,941,124	28	19	$5,895,373	10	196,427	9.7	$30.01
ID	5	$2,868,409	3	0	0	0	114,361	0.0	$0.00
IL	444	$155,115,444	133	43	$18,314,045	24	767,193	5.6	$23.87
IN	131	$112,196,238	45	19	$46,599,344	9	418,685	4.5	$111.30
KS	49	$18,479,208	24	11	$6,522,740	8	191,113	5.8	$34.13

	All Grants	All Grant Volume	Grant Makers	Facility/ Exp. Grants	Facility/Exp. Grant Volume	Facility/ Exp. Grant Makers	Population (Under 5)	All Grants Per 100k Children	All Grant Volume Per Child
KY	58	$14,677,472	28	6	$1,520,000	4	274,592	2.2	$5.54
LA	67	$12,689,473	26	10	$3,953,250	3	307,435	3.3	$12.86
MA	268	$81,519,426	129	34	$15,511,084	21	361,016	9.4	$42.97
MD	65	$24,594,619	34	9	$1,271,884	6	364,868	2.5	$3.49
ME	26	$3,031,985	15	2	$550,000	2	64,035	3.1	$8.59
MI	181	$160,711,666	56	54	$59,598,255	14	571,094	9.5	$104.36
MN	272	$57,779,538	66	24	$8,395,717	10	351,664	6.8	$23.87
MO	130	$36,334,437	56	20	$8,251,569	16	371,570	5.4	$22.21
MS	26	$11,375,479	9	4	$3,298,250	2	186,647	2.1	$17.67
MT	15	$1,524,082	12	1	$100,000	1	61,035	1.6	$1.64
NC	330	$158,873,156	76	21	$6,537,817	14	605,125	3.5	$10.80
ND	4	$277,000	1	0	0	0	53,215	0.0	$0.00
NE	90	$117,404,047	21	20	$11,288,996	9	131,473	15.2	$85.87
NH	42	$4,263,153	11	4	$345,000	1	63,843	6.3	$5.40
NJ	105	$23,143,210	41	3	$1,070,921	3	519,524	0.6	$2.06
NM	30	$9,040,393	10	5	$1,875,275	3	126,150	4.0	$14.87
NV	18	$9,826,159	11	3	$5,233,193	2	183,534	1.6	$28.51
NY	400	$91,714,747	166	37	$8,712,170	25	1,154,201	3.2	$7.55
OH	223	$68,018,189	74	25	$8,562,983	13	694,711	3.6	$12.33
OK	68	$38,403,649	30	14	$7,721,750	10	261,316	5.4	$29.55
OR	150	$31,615,212	31	26	$3,048,887	7	230,557	11.3	$13.22
PA	303	$92,699,164	105	45	$28,493,151	19	706,563	6.4	$40.33
RI	33	$4,355,790	19	2	$517,000	2	54,672	3.7	$9.46
SC	53	$17,569,893	26	7	$2,438,261	5	290,931	2.4	$8.38
SD	19	$6,237,625	7	4	$617,830	2	58,930	6.8	$10.48
TN	104	$28,774,942	37	13	$2,533,444	5	406,438	3.2	$6.23
TX	441	$121,227,643	169	64	$20,765,449	37	1,999,803	3.2	$10.38
UT	32	$20,640,477	15	2	$817,000	1	250,885	0.8	$3.26
VA	92	$16,682,339	43	12	$3,553,648	8	508,399	2.4	$6.99
VT	31	$9,151,020	14	4	$200,000	3	29,568	13.5	$6.76

	All Grants	All Grant Volume	Grant Makers	Facility/ Exp. Grants	Facility/Exp. Grant Volume	Facility/ Exp. Grant Makers	Population (Under 5)	All Grants Per 100k Children	All Grant Volume Per Child
WA	139	$47,341,182	43	18	$7,786,790	9	454,364	4.0	$17.14
WI	88	$11,743,961	48	13	$2,201,200	10	333,184	3.9	$6.61
WV	13	$1,328,710	6	2	$150,000	1	97,540	2.1	$1.54
WY	15	$2,503,170	11	0	0	0	36,541	0.0	$0.00

REINVESTMENT
FUND