

Financing for Nonprofit Child-Care Centers

Child-care experts commonly agree that centers with fewer than 70-100 children are rarely economically viable as stand-alone operations. Child-care management is complex, particularly in low-income communities where parents may need to participate in an array of government subsidy programs in order to afford the care. It is difficult to provide sufficient management functions and break even without income from at least 70-100 children.

Listed below are some common funding sources and restrictions.

Fee Funding Sources

Fee Structures and Policies

The fees charged by a child-care center serve as the core of the funding for the program. Fees are typically determined by establishing the cost of care and choosing a fee structure based on the community rates and the type of program the center will run. The cost of care per child is reached by totaling the annual cost of the child-care program and dividing the cost by the number of children served. Child-care centers use three basic types of fee systems: flat fees, sliding-fee scales, and scholarships.

Flat fees: centers charge families an equal amount of money for child-care. This system is easy to implement and maintain. The flat fee system can be adapted to allow for different flat fees for different ages of children, based on the greater cost of serving some ages than others.

Sliding-Scales Fees: Centers charge families different amounts based on their ability to pay. This fee structure can make child-care more affordable for lower-income families. Some sliding fee scales place the cost of care at the mid-point of the scale and subsidizes families at the low end of the scale by charging families at the higher end more than the actual cost of care. Some sliding fee scales place the actual cost of care at the upper end of the scale, so that no family pays more than the actual cost of care. Reduced fees are subsidized by outside contributions. Programs employing a sliding fee scale must verify family income, such as requiring families to provide pay stubs, tax or child support statements. Year-to-year income projections can be challenging with this method.

A nonprofit child-care center should use a sliding-scale fee cautiously so as not to threaten its ability to obtain or maintain tax-exempt status. The nonprofit must be able to show that it remains a public charity and must therefore limit the number of higher fee children in the center. A nonprofit child-

care center that is primarily an educational program such as Montessori schools or Head Start programs may avoid this issue by qualifying as an educational institution where the custodial nature of their services would be considered “incidental” to the educational nature of the program rather than as a charitable one.

Scholarships: Centers provide scholarships to some or all of the children attending the center. The scholarship method can be utilized with both the flat fee scale and the sliding fee scale. The costs of providing care are subsidized by outside contributions and/or government contracts. Child-care subsidies available in Texas have dwindled over the past decade and many 100% subsidized child-care centers merged with other programs to avoid closing.

In order to qualify for and maintain tax-exempt status, a nonprofit child-care center will need to subsidize the fees for the low-income children enrolled in the program.

Additional Fee Policies

- Tuition prior to service: Many programs charge fees prior to service on a weekly, biweekly, or monthly basis. Some programs also require a refundable deposit at the time of enrollment.
- Registration fees: Many programs charge a fee to process the family’s initial paperwork.
- Discounts for siblings: Most programs offer a discount for the second or third child from a single family the program.
- Absence fees: Many programs offer a specific number of no-charge days or weeks which families can use during a one-year period. Otherwise, the family is expected to pay the full tuition amount charged by the program.
- Special classes: Some centers generate additional fees by offering special skills classes such as swimming, gymnastics, or dance or offering special programs such as 4-H or scouts.
- Drop-in fees: Some programs generate extra fees by accepting children on a drop-in basis. The hourly fee is usually higher than the regular rate.

Other Funding Sources

Funding for child-care centers may come from government subsidy programs, individual donations, fundraising activities, religious organizations, foundations, corporations, or government agencies. This section outlines the many streams of monies that might be available for a center. Keep in mind, however, that some programs (particularly foundations) will only fund a specific project of the center; most foundations will not fund the general operating budget.

Child-Care Subsidy Assistance Payments

Child-care subsidy assistance payments may be paid directly to the center or may be paid to the family.

Texas Funding

Other than subsidies for some special needs populations, Texas has moved away from direct contracts with child-care centers to portable subsidies or vouchers which are given directly to parents through local Workforce Development Boards (see above for information on how to contact the local board). However, some cities and counties use Community Development Block Grant Funding (CDBG) or Child-Care Development Block Grant Funding (CCDF) to reserve a number of slots for families who qualify for vouchers, but who don't receive them due to lack of state funding.

Another form of funding is through the Texas Prekindergarten Program. Prekindergarten programs can be operated only by school districts and within school facilities, but subcontracting is permitted and coordination with other early childhood programs such as Head Start is encouraged. Prekindergarten programs must meet at least three hours a day for the full school year and be taught by a certified teacher. For more information, contact school districts in your area.

Federal Direct Subsidies to Centers

Head Start: Head Start and Early Head Start are federally funded programs for children aged zero to five in families with incomes at or below the poverty level. Funds are available to support center-based child-care, although only a limited number of programs can be funded within a given area. Organizations that receive Head Start funds are required to follow the Head Start performance standards and to provide an array of comprehensive services, which include child development, early education, social, health, and nutrition services. For more information, see <http://www.acf.dhhs.gov/programs/hsb>.

Child and Adult Care Food Program (CACFP): This USDA program provides funds for meals and snacks for children in child-care centers up to age 12. Reimbursements vary based on the incomes of families served by the early childhood program. In center-based care, reimbursement is based on the number of families that are eligible for free and reduced-price meals. For more information go to <http://www.fns.usda.gov/cnd/care/cacfp/cacphome.htm>.

Office of Apprenticeship Training, Employer and Labor Services (ATELS): This Department of Labor Program awards grants to states. In the past, Texas has sometimes awarded funds to child-care programs to sponsor apprentices. For more information, go to http://www.doleta.gov/atels_bat/.

Carol M. White Physical Education Program: This Department of Education (DOE) program provides grants to initiate, expand, and improve physical education programs, including after-school programs, for students in kindergarten through 12th grade in order to make progress toward meeting state standards for physical education. For more information, visit <http://www.ed.gov/programs/whitephysed/index.html>.

Community Technology Centers Program: The purpose of this DOE program is to create and expand community technology. They fund centers that will provide disadvantaged residents of economically distressed urban and rural communities with access to information technology and related training. The focus of the program is to use technology-related instruction to improve the academic achievement of students in secondary schools. For more information, visit <http://www.ed.gov/programs/comtechcenters/index.html>.

Cultural Partnerships for At-Risk Children and Youth: This Department of Education program makes demonstration grants to eligible entities for the development of school-community partnership programs designed to improve the educational performance and future educational potential of at-risk children by providing comprehensive, coordinated, educational and arts programs and services. Funds are distributed directly to local education agencies (LEAs.) For more information on the program, visit <http://www.ed.gov/programs/artscp/index.html>.

Drug-Free Communities Support Program: This program supports community coalitions in their efforts to address and reduce substance abuse among youth. DFCSP grants will be available to eligible coalitions in amounts of up to \$100,000 for a 12-month period. The coalition must have representation from the targeted community and include at least one member/representative from each of the following 12 sectors: youth; parents; businesses; media; schools; youth-serving organizations; law enforcement agencies; religious or fraternal organizations; civic and volunteer groups; healthcare professionals; and state, local, and/or tribal governmental agencies with expertise in the field of substance abuse. For more information, visit <http://www.ondcp.gov/dfc/>.

Early Reading First: This program, part of the President's "Good Start, Grow Smart" initiative, is a DOE program designed to transform existing early education programs into centers of excellence that provide high-quality, early education to young children, especially those from low-income families. The overall purpose of the Early Reading First Program is to prepare young children to enter kindergarten with the necessary language, cognitive, and early reading skills to prevent reading difficulties and ensure school success. For more information, visit <http://www.ed.gov/programs/earlyreading/index.html>.

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP): The GEAR UP program is a discretionary grant program run by the DOE and designed to increase the number of low-income students who are prepared to enter and succeed in postsecondary education. GEAR UP provides six-year grants to states and partnerships to offer services at high-poverty middle and high schools. GEAR UP grantees serve a cohort of students beginning no later than the seventh grade and follow the cohort through high school. GEAR UP funds are also used to provide college scholarships to low-income students. After-school programs will need to collaborate with other entities to apply for this grant. For more information, visit <http://www.ed.gov/programs/gearup/index.html>.

Mentoring Grants: This DOE program aims to improve the academic achievement of children with greatest need by assisting them in receiving support and guidance from a mentor. “Children with greatest need” is defined as children at risk of educational failure, dropping out, or involvement in criminal or delinquent activities, and who lack positive role models. Supported activities will work to improve interpersonal relationships between targeted children and their peers, teachers, other adults, and family members. Additionally, funded programs will work to reduce juvenile delinquency, involvement in gangs, and the dropout rate of at-risk children. For more information, visit <http://www.ed.gov/programs/dvmentoring/index.html>.

Parental Information and Resource Centers: The PIRC program provides resources that grantees can use in pursuit of the objectives of the No Child Left Behind Act. In particular, this program provides an opportunity for grantees to focus on assisting the parents of children who attend schools identified for improvement, corrective action, or restructuring under Title I, Part A of the Elementary and Secondary Education Act (ESEA). For more information, visit <http://www.ed.gov/programs/pirc/index.html>.

Partnerships in Character Education: This DOE program provides funding for character education programs. A nonprofit child-care center will need to partner with a local education agency (LEA) in order to apply. For more information, visit <http://www.ed.gov/programs/charactered/index.html>.

Talent Search Program: The Talent Search program identifies and assists individuals from disadvantaged backgrounds who have the potential to succeed in higher education. The program provides academic, career, and financial counseling to its participants, encourages them to graduate from high school, and assists them in continuing on to the postsecondary school of their choice. Talent Search also serves high school dropouts by encouraging them to reenter the educational system and complete their education. The goal of Talent Search is to increase the number of youth from disadvantaged backgrounds who complete high school and enroll in postsecondary education institutions. Students must be between the ages of 11 and 27 and have completed the fifth grade. In any given project, two-thirds of the participants must be low-income students who are potential first-generation college students. For more information, visit <http://www.ed.gov/programs/triotalent/index.html>.

Direct, low-interest government loans, and loan guarantee programs can also be a source of funds. USDA/Rural Development provides both direct and guaranteed low-interest loans to construct, improve, or expand space, and buy equipment and furniture for child-care projects in rural areas (populations under 50,000). Both nonprofit and for-profit organizations are eligible to apply. Transportation assistance funding from the U.S. Department of Transportation may be available if a project involves families who formerly received public assistance. Your area SBDC may also be able to provide you with information about low-interest loans.

Government grant availability changes on a regular basis. Agency goals that are low priorities one year may suddenly become the highest priority the following year. Check with local government agency representatives to find out when funding decisions are made, and ask how to have input on the process.

AmeriCorps VISTA

AmeriCorps VISTA can provide an organization with high-quality volunteers whose living expenses, healthcare, and other benefits are covered by AmeriCorps. For more information, see <http://www.americorps.org>.

Other Funding

Tax Benefits for Compliance with the ADA

The Internal Revenue Service (IRS) provides a tax benefits to assist businesses in complying with the Americans with Disabilities Act of 1990 (ADA). A child-care center must comply with the ADA. This means that the center's physical spaces must be accessible to disabled persons. Section 44 of the Internal Revenue Code allows a tax credit for small businesses. A small business is one that has \$1,000,000 or less in total revenues (for the previous tax year) *or* 30 or fewer full-time employees. This credit can cover 50% of the eligible access expenditures in a year up to \$10,250. The maximum credit a business can get is \$5,000. The tax credit can be used to offset the costs of complying with the ADA. The credit is available for expenses such as undertaking barrier removal, alterations to improve accessibility, providing sign language interpreters, and for purchasing certain adaptive equipment. Section 190 allows for a tax deduction for all businesses. The maximum deduction is \$15,000 per year. The tax deduction can be claimed for expenses incurred in barrier removal and alterations. Be sure to speak with your accountant regarding tax credit and tax deduction provisions.

Employer Funding

Some employers offer assistance with the cost of child-care either by reimbursing employees for a portion of their child-care costs or by subsidizing specific child-care programs, usually located at the workplace. Employers in Texas can receive tax credit for expenditures on child-care.

Foundation and Private Funding

Overview

According to *Financing Child-care in the United States*, contributions from the private sector play a minor part in child-care financing for ongoing operation child-care centers, representing less than one percent of total annual expenditures for child-care and early education. Nevertheless, this support can be significant for some programs. Individual donations can be large or small and usually succeed because of person-to-person contact. This technique works best if you can present a specific need and dollar amount to support that need, such as \$20 for an art easel or \$3,000 for a new piece of playground equipment.

Donated Goods and Services

Nonprofits are eligible to receive donated goods because they are tax deductible for donors. In some smaller communities, child-care facilities have been constructed almost entirely through in-kind contributions. Local residents contribute land and building materials, design services, and labor. While this level of in-kind contribution may not be feasible in your community, consider potential contributions of goods and services. However, as community based organizations experienced in housing development already know, donated materials and services are not always an advantage, particularly when they require major adaptations of plans and schedules to accommodate the contributor. Nonprofits should check all donated equipment and toys to ensure they have not been recalled due to safety hazards.

Community and Religious Organizations

Community or religious organizations can be an important source of funds, space, and in-kind contributions. Sponsorships of individual child-care programs are quite common. Money can be collected for scholarships, or for ongoing operations. A church donating one-fourth of its loose change in the collection plate each Sunday could generate thousands of dollars for a child-care program that it sponsors. Other private sector organizations, such as community foundations and local philanthropic foundations, also contribute to child-care, most notably through scholarship programs, although sometimes they donate cash or material resources. Some of the scholarship programs are portable, allowing the family to choose the child-care provider. Other programs require eligible parents to use specific child-care providers.

Foundations

Foundations rarely provide regular ongoing operational funds but may be willing to contribute to start-up costs or to a specific project. In general, contacting small local community or family foundations will be the most successful. *The Foundation Directory* located in the reference section of many public libraries is a good source for locating foundations.

Corporate Sector

Businesses frequently contribute to worthwhile community causes. Larger corporations may even have a staff person assigned to review requests. They may also have formal procedures and guidelines for you to follow in applying for funds. Smaller corporations are often less formal, but it is a good idea to approach them with a written proposal, as well. Think win-win. Be prepared to show the corporation how they could gain from giving to your cause, through publicity, tax deduction, or shared services.

Nonprofit Lenders

Nonprofit lenders may provide loans at a low rate.

Common Funding Restrictions

If nonprofits accept government funding, they will have to agree to any restrictions that come with the funds. The most common restrictions include certification as a drug-free work place, background checks, disclosure of lobbying activities, and following federal bidding procedures. Other federal grants will require using a federal wage scale. Foundations and corporations will also have restrictions on their funding. It is very important to read and understand the grant agreement before signing.

Funding for Facility Construction and Program Start-up or Expansion

Federal Government Funding

Community Development Block Grant Program (CDBG): This Department of Housing and Urban Development program offers grants to qualified cities/counties and all states. The funds can be used to construct child-care facilities in low-income areas. Some jurisdictions have elected to set up a loan program (section 108) with the funding. For more information on how to obtain this grant or loan money, contact your city or county officials. If they cannot answer your question, contact your local HUD field offices. The field offices in Texas can be located through the national HUD website at: <http://www.hud.gov/local/index.cfm?state=tx&topic=offices>.

The United States Department of Agriculture has two child-care funding programs for rural areas, currently 20,000 people or fewer.

Community Facilities Grant Program: Funds from this program can be used for construction of the child-care center or equipment required for a facility's operation. The amount of the grant can be no more than 75% of the project's costs. Priority is given to grant applicants who serve small communities (5,000 or less) or who serve low-income communities.

Community Facilities Loan Program: This program is similar to the grant program except the monies must be paid back to USDA. The rates are determined by the median household income that the center serves, and those serving very low-income families receive the best rates. The maximum loan term is the lesser of forty years or the useful life of the center.

More information about both these programs can be found at <http://www.rurdev.usda.gov/rhs/cf/cp.htm> or by contacting your local USDA rural development office. A list of rural development offices in Texas can be found at <http://www.rurdev.usda.gov/tx/lolist.htm>.

Small Business Administration: This micro loan program provides short-term loans of up to \$35,000 to small businesses and not-for-profit child-care centers for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery and/or equipment. Additional information is available at <http://www.sba.gov/services/financialassistance/index.html>.

State and Local Government Funding

Most state funding is available through Local Workforce Development Boards. These 28 local boards manage the Child-Care Development Block Grant Funding (CCDF) and coordinate other funding/resources. To find the board in your area, see <http://www.twc.state.tx.us/dirs/wdbs/wdbcontacts.html>.

You may also be able to obtain a low-interest loan, of \$10,000 to \$250,000, from the state through the Texas Linked Deposit Program. You can apply at almost any bank in the state, who will then submit an application to the state. Loans will be subject to the lender's normal credit evaluation. Proceeds can be used for working capital, or the purchase, construction, or lease of capital assets, which include land, buildings, and equipment. Loans to start-up businesses are permissible, subject to lender's normal credit evaluation. For more information on the Linked Deposit Program, visit http://www.governor.state.tx.us/divisions/ecodev/ed_bank/linked_deposit/.

Local School Districts

Some local school districts provide free facilities or grant subsidies to nonprofit child-care organizations that provide children before- and after-school care in school buildings.

Private Funding

Nonprofit lenders can often provide grants and low-interest loans for development costs. For instance, the Greater Houston LISC (Local Initiatives Support Corporation) provides funding for community development projects in the Houston area. For more information on Houston LISC, visit <http://www.lisc.org/houston/index.shtml>.

Some foundations also specialize in start-up projects. For instance, the Coastal Bend Community Foundation provides seed money for projects in Aransas, Bee, Jim Wells, Kleberg, Nueces, Refugio and San Patricio counties. For more information, visit <http://www.cbcbfoundation.org>.