

The Opportunity Zones and the National Child Care Gap

POLICY BRIEF

April 2025



Background

Opportunity Zones (OZs) are economically distressed communities (2010 census tracts) designated by each state to encourage investment and economic development through tax incentives. There are 8,764 designated OZs. This analysis looks at 7,582 OZs – 5,305 in urban areas and 2,277 in rural areas, excluding New Jersey, Kansas and territories. Established by the Tax Cuts and Jobs Act of 2017, these zones aim to spur growth and job creation in low-income areas by offering tax benefits to investors who commit capital to Qualified Opportunity Funds (QOFs). These funds then invest in businesses and properties within the OZs. As of December 31, 2023, an estimated \$150 billion in equity has been raised by QOFs since the program's start in 2018. This substantial investment reflects the program's success. Investments in OZs have been directed into a variety of projects aimed at economic revitalization. Most OZ investments have gone into real estate, including affordable housing, mixed-use developments combining residential, retail, and office spaces and hospitality and commercial businesses. Some funds have been used to develop health care facilities and transportation improvements. While real estate dominates, the program's intent is to encourage a broader range of investments that drive long-term economic growth.

Recommendations

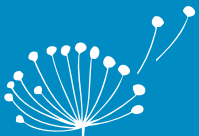
- Consider adding an additional tax incentive for investors in projects that are developing either a multi-family housing or commercial businesses project to invest in either renovation of existing property or new child care facilities.
- Consider allowing an accelerated exclusion percentage for QOFs that invest exclusively in child care facilities.
- Modify the 45(F) child care credit for non-profit organizations located in OZs to allow it to be claimed against payroll taxes for child care facilities.
- If pre-existing child care programs are in OZs, expand the ability to qualify as eligible OZ businesses as a means to support job creation and retention.
- Finally, amend the current law to allow states to designate more rural areas as OZs and allow a greater percentage to be excluded from capital gains taxes if the fund invested include a child care facility.

Child Care Need

An estimated 52 million people live in in these areas including 2,330,251 children under age six. The Buffett Early Childhood Institute at the University of Nebraska set out to understand the need for child care in OZs or surrounding areas. Using data obtained from state child care agencies, and a unique distance methodology, the Buffett Institute estimates the potential child care need for children under the age of five with all available parents in the workforce. The Institute found there are 1.5 million children who potentially need some type of child care because all available parents are in the workforce. Based on data obtained from states, the actual gap in the OZs, between the supply and potential need, is 450,000 spaces. The gap increases significantly when looking at the areas directly surrounding OZs. It rises to 2.1 million within three miles of the OZs, 2.6 million within five miles and 3.4 million within 10 miles. This accounts for over three-fourths of the gap nationwide. As a percentage, the gap is higher in rural areas than urban.

The Child Care Problem

Child care is a fragmented industry consisting of both center-based and home-based programs. In 2023, the market-based system generated nearly \$62 billion in revenue. The child care market consists of small, single-establishment, mostly female owned businesses that rely on private financing. According to the National Survey of Early Care and Education, over half of businesses serve fewer than 50 children and 58 percent employ fewer than 10 staff. Due to razor thin profit/loss margins, child care programs lack the capital or the borrowing power to construct or renovate facilities. This is particularly true in low-income communities including the OZs. Without some source of capital, increasing the supply of child care in the OZs is very unlikely. However, because of the structure of the OZ legislation, and the unstable business model of child care and the fragmented nature of the market, there is no incentive for those investing in projects to invest in child care facilities.



Buffett
Early Childhood
Institute

at the University of Nebraska

2111 S. 67th St., Suite 350
Omaha, NE 68106
402.554.2924

buffettinstitute.nebraska.edu

UNIVERSITY OF
Nebraska
System

