Economic Impact Statement

Office of Legislative Oversight

Note: This is a revised version of the economic impact statement submitted for Bill 9-20 on Monday, March 9, 2020.

Bill 9-20

Economic Development Fund – Local Business Child Care Grant Program – Established

SUMMARY

Overall, the Office of Legislative Oversight (OLO) expects Bill 9-20 to generate a positive, yet small, impact on the Montgomery County economy.

BACKGROUND

One of the goals of the Economic Development Platform for Montgomery County (Resolution No. 19-300) is to decrease the costs of doing business in the County in order to attract and retain businesses. The purpose of Bill 9-20 is to contribute to this goal. If passed, the Bill would charge the Director of the Department of Finance with creating and administering a Local Business Child Care Grant Program within the Economic Development Fund. The Child Care Grant Program would accept applications from "local" for-profit and non-profit businesses. As defined in Bill 9-20, local refers to businesses that have (i) their principal place of business in the County[1] and (ii) 50 or fewer full-time-equivalent employees. For local businesses that receive the grant, the program would subsidize up to 50% of the annual amount of child care contributions they make to their employees' Flexible Spending Accounts (FSAs) for child and dependent care, for employees whose incomes fall below $125,000 annually.

INFORMATION, ASSUMPTIONS and METHODOLOGIES

Predicting the magnitude and industrial distribution of these impacts with accuracy is difficult due to limited information. In particular, the amount of grant funds that would be injected into the local economy on an annual basis cannot be estimated. For one, the bill does not specify figures on annual funding amounts. Moreover, the demand for funds from businesses that would be eligible to receive the grant is unknown. Without an accurate estimate of demand, OLO is unable to project future demand for grant funds, which is necessary for estimating economic impacts over subsequent years.

Given these limitations, this analysis does not offer predictions for the magnitude nor the industrial distribution of the multiplier effects (i.e. diminishing rounds of new spending caused by a change in economic activity) that the Local Business Child Care Program would generate in the short-term. Instead, this analysis illustrates how the program should generate positive local multiplier effects. To do so, OLO uses Regional Input-Output Modeling System (RIMS II) multipliers for Montgomery County developed by the U.S. Bureau of Economic Analysis. These multipliers are "ratios of total changes to

[1] *COMCOR* defines principal place of business in the county as "A regular course of business commerce in the County by a business, along with any of the following: (1) The business has its physical business location(s) only in the County; or (2) The business has physical business locations both in and outside of the County, and the County-based location(s) account for over 50% of the business's total number of employees, or over 50% of the business's gross sales."

initial changes in regional economic activity."[2] Using these multipliers, OLO illustrates how the injection of funds from the Local Business Child Care Program could increase the following economic dimensions of the Montgomery County economy:

- Output – total market value of industry output (sales)
- Earnings – employee compensation plus net earnings of sole proprietors and partnerships
- Employment – number of full- and part-time employees
- Value added – total value of income generated from production[3]

The Impacts section below presents models of three hypothetical scenarios, in which the Local Business Child Care Program will offer grants totaling $100,000, $250,000 and $500,000, and estimate the effects of these injections into the economy on the above dimensions.

VARIABLES

The county-level variables that could affect the analysis are the number of local businesses that make contributions to their employees' dependent care FSAs; the amount of employer contributions; the amount allocated to the grant program; parental labor force participation; prevalence of economic disruptions due to child care issues; and rates of center-based and family child care use.

IMPACTS

Businesses, Non-Profits, Other Private Organizations

Workforce, operating costs, property values, capital investment, taxation policy, economic development, competitiveness, etc.

The Local Business Child Care Grant Program would primarily impact employees of recipient local businesses, whose gross income fall below $125,000 annually and whose employers will make contributions to their child and dependent care FSAs. For these employees, the grant would subsidize a proportion of their employers' contributions to their child and dependent care FSAs, which could have the effect of decreasing household expenditures on child care. To illustrate, let's assume that no local businesses currently contribute to their employees' child and dependent care FSAs. The Local Business Child Care Grant may induce employers to make contributions to improve the competitiveness of their compensation packages. The amount contributed would reduce employees' annual child and dependent care expenditures (assuming they do not increase their consumption of child and dependent care enough to entirely offset the contribution). Moreover, employees would gain additional income from the tax savings generated by the FSA. Employees can allocate the net savings elsewhere, which would generate a positive multiplier effect in the County economy.

The three scenarios modeled here illustrate this multiplier effect. In the scenarios, we assume the following:

[2] US Bureau of Economic Analysis. *RIMS II: An Essential Tool for Regional Developers and Planners*. 3-1.
[3] Ibid. G1-G3.

(a) the Grant will be funded at $100,000, $250,000 and $500,000;
(b) the Grant will subsidize 50% of employer contributions;
(c) with the implementation of the grant, local businesses' total contributions go from zero to the amount in which the funds allocated to the grant are exhausted (and no more); and
(d) the FSAs will generate 25% tax savings for each employer.

Table 1 presents the total increase in household revenue that would occur in each scenario—$250,000, $625,000, and $1,250,000 respectively. To estimate the impact of these total revenue increases on the local economy, type II household multipliers for Montgomery County are used in the analysis.[4] **Table 2** presents the estimated impacts on output, earnings, employment and value added in the three scenarios.

Table 1. Total Increase in Household Revenue by Scenario

Scenario	Grant Disbursement	Total Employer Contributions	Total Tax Savings at 25%	Total Increase in Household Revenue
1	$100,000	$200,000	$50,000	$250,000
2	$250,000	$500,000	$125,000	$625,000
3	$500,000	$1,000,000	$250,000	$1,250,000

Table 2. Estimated Impacts on Output, Earnings, Employment, and Value Added by Scenario

Scenario	Total Increase in Household Revenue	Output	Earnings	Employment (jobs/$1 million)	Value added
1	$250,000	$198,775	$39,675	1.0	$123,400
2	$625,000	$496,938	$99,188	2.4	$308,500
3	$1,250,000	$993,875	$198,375	4.8	$617,000

As indicated in **Table 2**, the economic impacts from the Local Business Child Care Grant Program would be positive, but quite small.[5] However, were the Council to decide to fund the grant at higher levels than assumed here, the economic impacts would increase.

Theoretically, these positive economic impacts would affect some of the County Council's priority indicators. On the one hand, increasing employee compensation could enhance **competitiveness** and **economic development**. On the other hand, an increase in employer contributions to employees' child

[4] Type II multipliers account for interindustry effects in addition to household-spending effects of a change in final-demand. See *RIMS II.* G-3.
[5] Indeed, these estimates should be interpreted as somewhat inflated. The analysis performed here does not account for all "leakages" outside of Montgomery County. For instance, if employees who benefit from the program decide to spend a portion of it on local retail, then a portion of their spending would go manufacturers and wholesalers based outside the county.

and dependent care FSAs would require employers to decrease **business operating expenditures** in other areas. However, these effects would be difficult to measure for all practical purpose given the small grant disbursement amounts assumed here. OLO sees no causal connection between the stimulating impact of the Local Business Child Care Grant and other priority indicators, like **property values** and **taxation policy**. Also, OLO does not anticipate that businesses would forgo **capital investments** to finance the child and dependent care FSAs.

Another important question to consider is whether the Local Business Child Care Grant Program will cause non-working parents to enter the Montgomery County labor force. Montgomery County is among the least affordable counties in Maryland for child care. The average annual price of infant care is $19,632 for child care centers and $13,703 for family child care.[6] According to a 2018 study by the Maryland Family Network, the high costs of child care throughout Maryland contribute to employment disruptions for working parents with children.[7] In fact, almost 15% of working parents (especially women) in the state with children age 5 and under reported long-term disruptions to employment, such as switching from full-time to part-time work, due to child care-related issues.[8] And approximately 18% of small businesses – the entities targeted by Bill 9-20 – experienced long-term disruptions to employment from working parents.[9] Crucially, the study finds that these disruptions carry significant economic costs. "Every year, absenteeism and turnover due to child care issues in Maryland," the report states, "cost businesses more than $2.4 billion, reduce economic activity by nearly $1.3 billion, and lower state and local tax revenues by over $117 million."[10]

Although the Local Business Child Care Grant Program (if funded at high enough levels) should spur employment growth in the County, predicting the extent to which this growth will include parents would be highly challenging. Nevertheless, there is reason to believe that the grant may induce parents to enter or re-enter the workforce. A review of the research on the impact of child care costs on parental employment finds that research generally indicates that a reduction in out-of-pocket costs for child care increases mothers' labor force participation.[11] In brief, the grant could potentially help businesses, both, reduce employment disruptions among their parental workforce and attract employment from parents currently out of the workforce.

[6] Child Care Aware of America. 2019. *The US and the High Price of Child Care*. County Supplement for Maryland. https://www.childcareaware.org/our-issues/research/the-us-and-the-high-price-of-child-care-2019/2019-price-of-child-care-by-county-maryland/.
[7] Talbert, Elizabeth M., Ali Bustamante, Lindsay J. Thompson, and Margaret E. Williams. 2018. *Counting Our Losses: The Hidden Cost to Marylanders of Inadequate Child Care System*. Maryland Family Network.
[8] Ibid. 1.
[9] Ibid. 12.
[10] Ibid. 15.
[11] Morrissey, Taryn W. 2017. "Child care and parent labor force participation: a review of the research literature." *Review of Economics of the Household*. 15: 1-24.

Residents Workforce, property values, income, taxation policy, economic development, etc.	For reasons discussed above, County residents could also benefit from the Local Business Child Care Grant. For one, the multiplier effects on output, earnings, employment, and value-added would span the County. Residents would, therefore, share in these economic benefits.

WORKS CITED

Child Care Aware of America. 2019. *The US and the High Price of Child Care*. County Supplement for Maryland. https://www.child careaware.org/our-issues/research/the-us-and-the-high-price-of-child-care-2019/2019-price-of-child-care-by-county-maryland/.

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US Bureau of Economic Analysis. *RIMS II: An Essential Tool for Regional Developers and Planners.*

CAVEATS

Four caveats to the economic analysis performed here should be noted. First, the analysis assumes no new revenue generation for the Economic Development Fund. Second, the analysis does not estimate the economic impacts of alternative uses of funds from the Economic Development Fund. Third, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Fourth, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent the OLO's endorsement of, or objection to, the bill under consideration.

CONTRIBUTIONS

This economic impact statement was drafted by Stephen Roblin (OLO).