Economic Impact Statement

Office of Legislative Oversight

Bill 38-21 Economic Development Fund – Local Business Child Care Grant Program – Established

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that enacting Bill 38-21 would have a positive impact on economic conditions in the County. By subsidizing employer contributions to employee childcare Flexible Spending Accounts (FSAs), the Local Business Child Care Grant Program likely would reduce net operating costs for recipient businesses and reduce net household expenses associated with childcare for eligible employees of these businesses. The Bill also has the potential to mitigate employment disruptions caused by insufficient daycare and their negative impacts on affected residents and businesses. However, various unknowns prevent OLO from anticipating the likelihood that the Program would mitigate these impacts. Moreover, OLO notes that this analysis does not account for the economic opportunity cost of using County funds for the childcare subsidy nor whether the subsidy would help attract new businesses to the County.

BACKGROUND

Under the Business Development pillar of the Economic Development Platform for Montgomery County, the Council expressed its intent to "invest in opportunities to 1) decrease the cost of doing business in the County; 2) promote the County's businesses and business climate; 3) facilitate the attraction and retention of strategic industries; and 4) expand entrepreneurial programs and services to create new businesses."[1] Bill 38-21 aims to further this goal by incentivizing local small businesses to locate in the County and subsidizing childcare for employees.

If enacted, Bill 38-21 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 Local Business Child Care Grant Program (hereinafter the "Program") would accept applications from "local" for-profit and non-profit businesses, defined as businesses that have their principal place of business in the County[2] and 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 childcare

[1] Resolution 19-300, Economic Development Platform for Montgomery County, Adopted on November 19, 2019.

[2] Code of Montgomery County Regulations 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."

contributions businesses make to their employees' Flexible Spending Accounts (FSAs) for child care. The grant would only apply to employees whose incomes fall below $125,000 annually.[3]

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Enacting Bill 38-21 would involve a transfer from the County to businesses that receive the Local Business Child Care Grant. Using funds from the Economic Development Fund (EDF), the County would subsidize certain businesses' contributions to employees' FSAs for childcare. For businesses already based in the County, the transfer from the County to businesses entails a shift where economic activity occurs within the County—that is, County revenues being used to subsidize certain businesses' childcare contributions versus some other use of government spending. In contrast, if the subsidy plays a causal role in attracting new businesses to the County, the transfer would contribute to an influx of economic activity in the County.

Ultimately, the total annual economic impact of Bill 38-21 would depend on:

(a) the per year economic impacts of the childcare subsidy to affected businesses and residents;
(b) the per year economic opportunity cost of using EDF funds for the childcare subsidy; and
(c) the number and size of businesses the County attracts using the childcare subsidy per year.

OLO limits the scope of this analysis to the economic benefits of the childcare subsidy for several reasons. First, it is unknown how County revenues would otherwise be used in the absence of enacting Bill 38-21. For this reason, OLO cannot account for the economic impacts of alternative government spending required to estimate (b). Second, due to time limitations, OLO is unable to examine the extent to which the Program would attract new businesses to the County required to estimate the economic impacts of (c).

In subsequent sections, this analysis focuses on the economic benefits of Bill 38-21 to the primary stakeholders:

- eligible businesses, i.e., businesses that have their principal place of business is in the County and have 50 or fewer full-time-equivalent employees; and
- eligible employees, i.e., employees at eligible businesses whose incomes fall below $125,000 annually

[3] Montgomery County Council, Bill 38-21, Economic Development Fund – Local Business Child Care Grant Program – Established, Introduced on October 19, 2021.

OLO does not use a quantitative method to estimate the impacts on the primary stakeholders due to unknowns regarding the supply and demand for the Program.[4] Instead, OLO provides a qualitative assessment of the impacts based on the Program and childcare FSA conditions.

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 38-21 are the following:

- total dollar amount of grant funds
- total number of eligible businesses with childcare FSAs
- total number of eligible employees at eligible businesses
- total dollar amount of business and employee contributions to childcare FSAs

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Businesses, Non-Profits, Other Private Organizations

The primary private organizations that enacting Bill 38-21 would affect are eligible businesses that currently provide childcare FSAs for their employees and those that would provide the benefits due to the grant subsidy. These businesses would experience a net reduction in operating costs associated with providing childcare FSAs. The reduction would occur for businesses that use the Local Business Child Care Grant to maintain current contribution levels to employees as well as those that use the subsidy to increase contribution levels. In terms of the former, the grant would subsidize current levels. For instance, an employer that contributes $1,000 per employee would receive up to a $500 subsidy from the grant. For businesses that increase contribution levels, the grant subsidy as well as additional payroll and FICA tax savings would reduce the marginal cost associated with providing more contributions.[5]

Moreover, to the extent that Bill 38-21 induces eligible businesses to provide or expand contributions to employee childcare FSAs, these businesses may experience additional economic benefits, such as improving employee recruitment and retention and reducing employee absenteeism and turnover associated with insufficient childcare. Indeed, Montgomery County is among the least affordable counties in Maryland for childcare. 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

---

[4] In terms supply, the total dollar amount of grant funds that would be injected into the local economy on an annual basis cannot be estimated, as the Bill does not specify figures on annual funding amounts. In terms of demand, the number of businesses that currently have childcare FSAs for their employees, the number of businesses that would establish the benefits due to the grant, the total number of qualifying employees across businesses, and other key variables are unknown.
[5] Brenda Porter-Rockwell, "How to Set Up a Flexible Spending Account," Inc.
[6] Child Care Aware of America. 2019. *The US and the High Price of Child Care*. County Supplement for Maryland.

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 38-21 – experienced long-term disruptions to employment from working parents.[9] The study finds that these disruptions carry significant economic costs. “Every year, absenteeism and turnover due to childcare 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]

OLO notes that Bill 38-21’s potential impacts on the workforce, as well as economic development, competitiveness or other Council priority indicators,[11] likely would depend on the total dollar amount of the Local Business Child Care Grant allocated to businesses in the County on an annual basis and the characteristics of businesses that receive the grant. For instance, the Program’s ability to mitigate employment disruptions likely would be greater if the grant targets businesses in low-wage industries in which the financial burden of childcare costs for workers is more severe. However, due to unknowns previously discussed, OLO is unable to anticipate the likelihood of workforce-related outcomes occurring with the enactment of the Bill.

Residents

The primary residents that enacting Bill 38-21 would affect are eligible employees whose employers would provide childcare FSAs or increase contribution levels because of the Program. These residents would experience net decreases in household childcare costs in the form pre-tax savings. As previously discussed, net decreases in childcare costs may also mitigate various employment disruptions. These include short-term loss of income associated with reduced hours and unemployment, as well as lower reemployment wages and other long-term impacts associated with job loss and prolonged unemployment.[12] In fact, a review of the research on the impact of childcare costs on parental employment finds that a reduction in out-of-pocket costs for childcare increases mothers’ labor force participation.[13]

DISCUSSION ITEMS

Not applicable

[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] Montgomery County Code, Sec. 2-81B, Economic Impact Statements.
[12] Austin Nichols, Josh Mitchell, and Stephan Linder, Consequences of Long-Term Unemployment, Urban Institute, July 2013.
[13] 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.

WORKS CITED

Child Care Aware of America. 2019. *The US and the High Price of Child Care*. County Supplement for Maryland.

Montgomery County Code. Sec. 2-81B, Economic Impact Statements.

Montgomery County Council. Bill 38-21, Economic Development Fund – Local Business Child Care Grant Program – Established. Introduced on October 19, 2021.

Montgomery County Council. Resolution 19-300. Economic Development Platform for Montgomery County. Adopted on November 19, 2019

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.

Nichols, Austin, Josh Mitchell, and Stephan Linder. Consequences of Long-Term Unemployment. Urban Institute. July 2013.

Porter-Rockwell, Brenda. "How to Set Up a Flexible Spending Account." Inc.

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.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, 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. Second, 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 OLO's endorsement of, or objection to, the Bill under consideration

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.