Racial Equity and Social Justice (RESJ) Impact Statement

BILL 38-21: ECONOMIC DEVELOPMENT FUND —LOCAL BUSINESS CHILD CARE GRANT PROGRAM—ESTABLISHED

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Bill 38-21 will have a net impact of widening racial and social inequities in the County as the bill's benefits for business owners and employees, that are disproportionately White, will likely exceed the bill's benefits for childcare operators and employees, that are disproportionately People of Color. To improve racial equity and social justice, this statement offers several recommended amendments for consideration.

PURPOSE OF RESJ IMPACT STATEMENT

The purpose of RESJ impact statements is to evaluate the anticipated impact of legislation on racial equity and social justice in the County. Racial equity and social justice refer to a **process** that focuses on centering the needs of communities of color and low-income communities with a **goal** of eliminating racial and social inequities.[1] Achieving racial equity and social justice usually requires seeing, thinking, and working differently to address the racial and social harms that have caused racial and social inequities.[2]

PURPOSE OF BILL 38-21

The purpose of Bill 38-21 is to attract and retain businesses in the County by subsidizing childcare for their employees.[3] Toward this end, the bill would require the County's Department of Finance to establish a Local Business Child Grant Program within the County's Economic Development Fund. The program would allow local for-profit businesses and non-profit organizations with 50 or fewer employees to apply for grants from the County to match up to 50 percent of the employers' contributions to its employees' Flexible Spending Accounts (FSA) for eligible childcare and dependent care.[4] The grant program's match would be available for employer contributions to FSAs for employees earning income of less than $125,000 annually.

Bill 38-21 is consistent with the County's Economic Development Platform to invest in local opportunities that decrease the cost of doing business, promote the County's businesses and business climate, attract and retain strategic industries, and expand services to create new businesses.[5] Bill 38-21 was introduced to the County Council on October 19, 2021.

ECONOMIC DEVELOPMENT, CHILD CARE, AND RACIAL EQUITY

Childcare and quality early childhood education is essential to economic development in the short-term and the long-term. As emphasized during this pandemic, childcare enables employees and women in particular to enter and remain in the workforce. And given the long-term benefits of high-quality early childhood programs, childcare also helps prepare the workforce for the future economy. Yet, despite high quality childcare providing so many public benefits, it is funded as a private good rather than as a public one. The high cost of delivering quality childcare compared to families' ability to pay for such services creates and exacerbates inequities in childcare by race, ethnicity, and income. These inequities in childcare, in turn, undermine efforts to advance equitable economic development opportunities. An examination of inequities in economic opportunity and childcare in Montgomery County by race and ethnicity follows.

Inequities in Economic Opportunity. Historically inequitable policies have fostered racial and ethnic inequities in economic development among business owners and employees. As noted by the Federal Reserve Bank of Boston:[6]

> "(T)he practices and policies that laid the groundwork for and built the U.S. were explicitly designed to ensure an absolute accumulation of intergenerational wealth and concentrated power for white people, particularly men. A legacy of land theft, slavery, racial segregation, disenfranchisement, and other exclusive policies against Black and Indigenous people and people of color produced a racialized economy that decimated these communities and intentionally barred survivors and descendants from building wealth, socioeconomic well-being and resilience."

Current inequities in policies and practices also adversely impact people of color as they consider starting and growing businesses. These include disparities by race and ethnicity in educational attainment, personal wealth, access to mainstream capital, and exposure to entrepreneurship in family and social networks.[7] They also include disparities by race and ethnicity in access to credit with Black- and Latinx-owned businesses more likely to have been denied credit, to receive only a portion of the funding requested, or to refrain from applying for needed funding out of fear that their applications will be rejected.[8] Other factors that explain the disparity in capital include discriminatory lending practices, less wealth to leverage, recent financial challenges, and lower credit scores.

Historic and current inequities in economic opportunity result in sizable disparities in business ownership by race and ethnicity. Nationally, Black and Latinx residents represent about 28 percent of the population, but only 8 percent of the nation's business owners with employees.[9] Locally, Black and Latinx firms each accounted for 15 percent of firms in 2012 and Asian firms accounted for 14 percent of firms, yet Asian firms accounted for only four percent of business revenue, Black firms accounted for 1.7% of business revenue, and Latinx firms accounted for 1.5% of business revenue.[10]

Economic inequities also foster racial and ethnic disparities in employment, income and poverty. Nearly two-thirds (64 and 62 percent) of White and Asian residents in Montgomery County were employed in management, business, science and arts occupations in 2017 while less than half of Black residents (45 percent) and only a quarter of Latinx residents were employed in such positions.[11] This contributes to disparities in incomes by race and ethnicity where the median household income for White families in Montgomery County was $119,000 and Asian families was $109,000 compared to $73,000 for Black households and $72,000 for Latinx households in 2017.[12] Economic inequities also foster disparities in poverty rates by race and ethnicity where four percent of White residents and six percent of Asian residents lived in poverty in 2017 compared to 11 percent of Black and Latinx residents.[13]

Inequities in Child Care. Historically inequitable policies and practices have fostered inequities in childcare by race and ethnicity among businesses and their employees as well as among client families and children. These inequities are driven by a lack of public investment in early childcare that is rooted in the racialized history of Black women bearing the burden of domestic work and childcare through slavery and Jim Crow. A description of how this legacy shapes inequity by race and ethnicity among childcare providers, access, and outcomes follows.

Childcare Providers and Caregivers. Unlike most developed nations, the U.S. has never treated the care of its youngest children as a public good worth of significant public investment, especially in relation to K-12 public education.[14] Whereas K-12 is seen as part of the public good, childcare is seen as part of the service industry.[15] The public undervaluing of childcare and its workforce is rooted in a history of race, gender, class, and nativism.[16] More than 90 percent of childcare workers are female and nearly half (45 percent) are people of color.[17] People of color are also concentrated among childcare providers as half of childcare business owners are minority-owned.[18]

The undervaluing of childcare makes it difficult for childcare providers and workers to achieve financial stability. Nationally, about 10 percent of programs have closed permanently since the start of the pandemic.[19] Further, four in five childcare operators suffered from a staffing shortage this summer and more than a third of early childhood educators reported they were considering leaving their programs, or the field itself, within the next year – a figure that rises to 55 percent at minority-owned businesses.[20]

A large proportion of the field has worked in poorly paid jobs with substandard or no benefits. In 2013, childcare workers earned an average of $10 per hour. Preschool teachers, including teachers in public and private settings, faired better at $15.11 per hour. In comparison, kindergarten teachers earned $25.40 per hour.[21] Further, a national survey found that nearly half of childcare workers received public assistance.[22] Without sufficient government support for childcare, "women of color have been subsidizing the entire system by taking very low wages."

The government usually subsidizes early childhood education for lower-income families who receive state-funded vouchers or subsidies. While many states and cities have also created or expanded pre-K programs, collectively these programs only serve 44 percent of eligible 4-year-olds and 17 percent of eligible 3-year-olds nationwide. Researchers note that government investments in childcare and early education have occurred in "fits and starts," often in response to larger public goals like preparing children for school, moving low-income parents into employment, and assimilating immigrant and low-income children of color into mainstream culture. However, these efforts have not been sufficiently funded to meet policy goals, provide benefits equitably, or address gaps in access to high-quality early education."[23]

Childcare Opportunities. Although government funding for childcare targets low-income families, both low- and moderate-income families face barriers to childcare and early education because the supply of available slots is insufficient for demand. A description of common barriers follows. Of note, these barriers can be especially daunting for families of color, English learning families, and immigrant families.[24]

- **Affordability:** The most universal barrier to childcare is cost. There are too few free or affordable early childhood programs for all children. For most working families, childcare is a significant portion of their household budget.[25] In 2021, the average cost of full-time infant care was $14,668 per year and for preschooler care, it was $16,365.[26] A family of four with an infant and a preschooler in Montgomery County would need to earn at least $106,000 to afford the costs of childcare.[27] Affordability is especially challenging for Black and Latinx families given lower average salaries and higher poverty rates.

- **Access:** Publicly funded early childhood programs can help alleviate affordability as a barrier to accessing quality childcare and early education services. Since all early childhood programs are under-resourced, policies determining who can participate in these programs are often made in the context of limited resources. These decisions can disproportionately limit access to children and families of color.[28]

- **Supply:** Families' participation in childcare and early education may also be inhibited by the lack of high-quality options that are culturally and linguistically appropriate. Research on populations impacted by "childcare deserts," areas with little or no access to childcare – show that nationally Latinx and Asian children are most impacted by lack of supply. The supply of high-quality options is often limited in poor and low-income neighborhoods. Low-income neighborhoods, as well as neighborhoods with high proportions of non-English speakers, may also have low availability of formal, licenses, culturally competent care, including bilingual providers who speak the languages of the families in the community.[29]

Locally, three of the most diverse areas of the County, Gaithersburg and Montgomery Village (District 9), Silver Spring and Wheaton (District 13) and Burtonsville (District 5) can be considered childcare deserts for infants and toddlers since the number of children under age two exceed slots available by more than 2,000 children.[30] In 2016, there were 5.5 children per registered slot for infants and toddlers across the County overall.[31]

- **Quality:** Research shows that maintaining strong and positive racial, ethnic, and cultural identities is beneficial for youth of color's development. Similarly, research demonstrates the benefits of early childhood program practice that maintains continuity of cultural and linguistic characteristics and experiences between children's homes and their early childhood settings. Yet definitions of quality in early childhood settings often reflects the views of the dominant language and culture and may fail to elevate standards of diversity or alternative concepts of quality.[32] In 2017, 43 percent of four-year olds participated in high-quality pre-K programs defined public pre-K and childcare and family care slots meeting the Excels 5 criteria in Montgomery County.[33]

Anticipated RESJ Impacts

Discerning the potential impact of Bill 38-21 on racial equity and social justice in Montgomery County requires considering the potential impact of the bill on two sets of racial disparities: inequities in economic opportunity and in childcare. The potential impact of Bill 38-21 on each of these is addressed in turn. Taken together, OLO finds that Bill 38-21 will have a net impact of widening racial and social inequities in the County as the benefits of the bill for primarily White business owners and employees will be greater than the benefits received among disproportionately People of Color childcare operators and employees.

- ***Owners and Employees of Businesses Eligible for Child Care Grants.*** The demographics of employers and employees benefiting from Bill 38-21 is likely to be disproportionately White given the demographics of businesses and employees in the County. White-owned businesses account for 60 percent of businesses and more than 90 percent of business revenue in the County. Therefore, the businesses that can take advantage of this childcare grant is likely to be White-owned. Further, employee groups likely to benefit from this grant are also disproportionately White as 72.2 percent of employed White residents in the County were employed in management, business, science and arts occupations in 2019 compared to 65.1 percent of Asian residents, 47.6 percent of Black residents, and 25.1 percent of Latinx residents. Given this, OLO anticipates that White business owners and employees would disproportionately benefit from this bill. If White residents benefit more from Bill 38-21 than other racial and ethnic groups, the bill widens current racial and social inequities

- ***Owners and Employees of Child Care Businesses.*** Childcare operators and employees could also benefit if use of the grant helps to sustain and enhance their businesses and/or employee pay. More specifically, additional revenue into childcare programs resulting from the grant could help compensate operators and employees. OLO anticipates that this impact will improve racial equity and social justice because people of color (and women of color in particular) disproportionately comprise the childcare workforce and business owners. But this potential benefit is indirect and maybe worth less than the benefits that employers and/or employees receive from the grant. For example, in some situations, the grant will solely offset spending on childcare that was made outside of an employee's FSA account. In those cases, neither child care operators nor employees would receive any benefit from the grant as the revenue they collect for their services would be the same as what they received before the grant was awarded. Under this scenario, inequities in childcare compensation for operators and employees as sustained.

OLO acknowledges that if the bill works as intended, attracting or retaining more businesses as a result, County residents could benefit from increased economic opportunity and potential tax revenue resulting from the bill. However, OLO does not anticipate that such changes would favorably or negatively impact racial equity or social justice in the County.

Recommended Amendments

The County's Racial Equity and Social Justice Act requires OLO to consider whether recommended amendments to bills aimed at narrowing racial and social inequities are warranted in developing RESJ impact statements.[34] OLO finds that Bill 38-21 as currently constructed could widen racial and social inequities in the County because its provisions neither advance racial equity in economic development nor in childcare. Should the Council seek to address these inequities with recommended amendments to Bill 38-21, the following promising practices can be considered.

Prioritize minority-owned businesses in awarding childcare grants. Increasing and sustaining the number of People of Color-owned businesses in the County helps to narrow racial and social inequities in economic opportunities. Toward this end, the Council could consider amending Bill 38-21 to:

- **Prioritize People of Color-owned businesses in childcare grant funding.** This could include setting aside childcare grant funds for People of Color (POC)-owned businesses and/or granting priority in funding to POC-owned business and White-owned businesses that partner and/or subcontract with POC-owned businesses in the County.
- **Include cooperative businesses as another business category eligible for childcare grants**. PolicyLink advises that support for small businesses through cooperative business development will assist POC businesses as about 60 percent of new co-ops are owned by people of color. PolicyLink also finds that co-ops support wealth creation, quality jobs, and meaningful change for underserved populations.[35]

Create grant fund program for childcare providers. Investments in childcare and early education programs to expand high-quality opportunities and improve compensation for childcare providers will promote racial equity and social justice as the families and providers most likely to benefit from these investments are people of color. Toward this end, the Council could consider amending Bill 38-21 to award grants directly to childcare providers to:

- **Supplement employees' compensation.** This could include awarding grants to supplement earnings, provide health insurance, forgive student debt, provide paid time-off, and other supports.[36]
- **Support the education of the childcare workforce**. This could include scholarships and stipends, professional development, information, curricula, material in multiple languages and support for informal and license-exempt caregivers in diverse, low-income communities.[37]
- **Fiscal support for long-term sustainability of the childcare sector**. This could include support for general operations and capital investments and providing supplements to childcare providers that cover the difference between students enrolled and students attending among providers receiving state subsidies.[38]

CAVEATS

Two caveats to this racial equity and social justice impact statement should be noted. First, predicting the impact of legislation on racial equity and social justice is a challenging, analytical endeavor due to data limitations, uncertainty, and other factors. Second, this RESJ impact statement is intended to inform the legislative process rather than 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

OLO staffer Elaine Bonner-Tompkins, Senior Legislative Analyst, drafted this RESJ impact statement.

[1] Definition of racial equity and social justice adopted from "Applying a Racial Equity Lends into Federal Nutrition Programs" by Marlysa Gamblin, et.al. Bread for the World, and from Racial Equity Tools https://www.racialequitytools.org/glossary
[2] Ibid
[3] Montgomery County Council, Bill 38-21, Economic Development Fund – Local Business Child Care Grant – Established, introduced on October 19, 2021
[4] According to the IRS, the combined employer and employee contributions for a dependent care FSA cannot exceed a $5,000 per year, or $2,500 if a person is married and files separately. If an employer contributes $5,000 to their employee's FSA, the maximum amount of the grant authorized under this bill would be $2,500 per eligible employee.
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[6] Field Note, 2020-2, December 2020 – Turning the Floodlights on the Root Causes of Today's Racialized Economic Disparities: Community Development Work at the Boston Fed Post-2020, Regional and Community Outreach
[7] Stephen Roblin, COVID-19 Recovery Outlook: Minority-Owned Businesses, Office of Legislative Oversight, September 21, 2020
[8] Alicia Robb, "Minority-Owned Employer Businesses and their Credit Market Experiences in 2017," Office of Advocacy U.S. Small Business Administration, July 22, 2020 cited by Stephen Roblin
[9] Joseph Parilla and Darin Redus, How a new Minority Business Accelerator grant program can close the racial entrepreneurship gap. Brookings, December 9, 2020
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[11] American Community Survey, 1 Year Estimates, 2019, Table S0201
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[25] Ibid
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[29] Ibid
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[31] Ibid
[32] Christine Johnson-Staub
[33] Elaine Bonner-Tompkins, Pre-K in Montgomery County and Other Jurisdictions, OLO Report 2017-7, Office of Legislative Oversight
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[35] Sarah Treuhaft and Victor Rubin, Economic Inclusion: Advancing an Equity-Driven Growth Model, Job Creation: Sectoral and Industry Approaches, PolicyLink, 2012
[36] Dapha Bassok, Anna Markowitz, and Molly Michie, COVID-19 highlights inequities in how we treat early educators in child care v. schools, Brown Center Chalkboard, Brookings, October 23, 2020
[37] Christine Johnson-Staub
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