CHILD CARE EXPANSIONS ARE MAKING A DIFFERENCE FOR MARYLAND'S ECONOMY

REPORT PREPARED BY

MDCEP

MARYLAND CENTER ON ECONOMIC POLICY

On the Economic Value of Child Care

When Maryland Family Network commissioned this study back in December, we thought we might be onto something big. We didn't just want to look at numbers, we wanted to dive into how child care touches every corner of our economy and, more importantly, our lives. What we found was both affirming and eye-opening.

We've always believed that high-quality, affordable child care should be more than just a line item in a family's budget or a slot in a child's daily schedule. We believe that child care is the linchpin of our workforce, enabling parents to punch in, climb up, and dream big. It's about moms and dads who can pursue careers without pausing, and it's about employers who get the best out of their teams because their employees aren't worried sick over who's watching the kids.

Here's the kicker: investing in child care pays off, big time. For every dollar we put into early childhood education, we're not just giving kids a head start. We're fueling our economy, reducing crime, and building a brighter, more sustainable future for Maryland.

This report lays it all out. Since 2018, there has been an undeniably positive trend in Maryland showing how child care is not just good policy—it's smart economics. Join us on this journey, and let's make Maryland a leader in the national conversation about investing in high quality, affordable child care.

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Child Care Expansions Are Making a Difference for Maryland's Economy

Child care is critically important for Maryland families as well as our state's economy. It enables parents to pursue their careers knowing that their children are in good hands. Yet high costs put child care out of reach for many Marylanders – and this barrier is more prevalent for some than others. Financial assistance provided through the Child Care Scholarship Program enables thousands of Maryland families to ensure children are safe while parents work to afford necessities, but for many years this program was among the most inadequate in the country.

The General Assembly and executive policymakers have enacted a series of reforms over the last six years to strengthen Child Care Scholarships by expanding eligibility, improving payment rates, and eliminating copays. While much work remains to ensure all children have access to affordable care, these reforms have brought enormous benefits to children and families. Recent child care expansions have also generated economic gains by enabling more parents to work for pay and increasing families' disposable income

- The child care scholarship program now serves more than 30,000 children, more than double the number receiving assistance during FY 2018.

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"Just knowing that I can work, without having to worry about how I'm going to pay for child care, and for Jordan to be somewhere safe, where I know that she's getting an education, is peace of mind for me. It will help me to give my daughter a better quality of life, like buying her clothes and paying my bills on time."

– Kadiatou Kaba, Baltimore

- Based on states' historical experiences following child care expansions, improved access to care may have enabled up to 11,900 women to gain employment, with resulting annual earnings of up to $381 million.

- By enabling more women to enter the workforce, these child care expansions may have lifted as many as 8,800 Marylanders out of poverty.

- Between the earnings boost from increased employment and families' cost savings from getting help with child care, these expansions may have increased annual household spending by up to $127 million and generated up to $27 million per year in state and local tax revenue.

Maryland Families Rely on Child Care Scholarships

High costs put quality child care out of reach for many working families and pose a substantial burden for families that pay for care out of pocket

- As of December 2023, center-based child care for one child 2-5 years of age cost more than $14,500 per year on average, more than in-state tuition at any University System of Maryland institution.

- It was more costly for parents of infants and 1-year-olds at over $20,800 per child.

High-quality child care is most out of reach for parents in low-wage jobs. In Maryland, 1 in 7 employed mothers of young children worked in a low-wage occupations.[1] Structural barriers like pay discrimination put child care even further out of reach for Black, Latinx, and Indigenous parents.[2]

Widespread access to high quality child care is also essential for Maryland businesses and the health of our economy. The Office of the Comptroller's 2023 “State of the Economy” report found that rising child care costs are one of the most significant factors preventing women from rejoining the traditional labor force and that Maryland has seen a greater decline in the number of women working or actively seeking work than the national average.iv While Maryland's employment rate and labor force participation rate remain above the national average,v our incomplete recovery from 2020 losses due to COVID-19 is making it more challenging for businesses to hire the workers they need.

The Child Care Scholarship Program eases financial burdens and expands access to care by providing financial assistance for child care costs to eligible working families. The program ensures that children are receiving the care and learning they need at a critical time in childhood development. Reducing out-of-pocket costs also enables parents to enter and remain in the workforce to provide for their families. This, in turn, boosts spending at Maryland businesses and makes it easier for them to meet labor needs.

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Policymakers Have Strengthened Child Care Scholarships since 2018

Prior to 2018, Maryland had one of the worst child care scholarship programs in the country:

- During fiscal year 2018 (July 2017 to June 2018), our Child Care Scholarship Program (then known as the Child Care Subsidy Program) served only 13,400 children in an average month, down from 24,500 in FY 2009.[3]

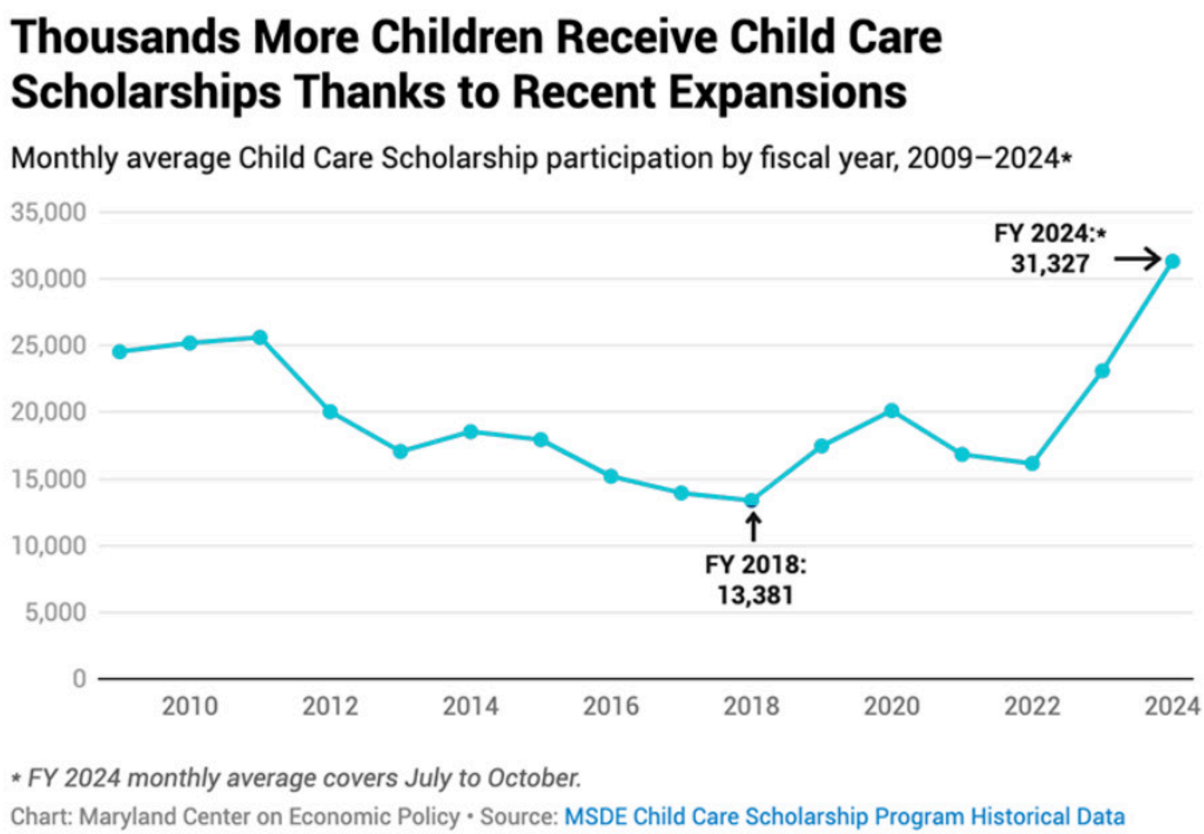
- In 2016, the state's income limit for eligibility was only 33% of state median income, the lowest level nationwide by that measure.[4] Only two other states had income caps below 40%, while the majority of states extended eligibility to families at or above 50% of state median income. In dollar terms, only 13 states had lower eligibility caps. Maryland's income cap in 2016 was 23% below its 2001 level, adjusted for inflation.

- As of early 2016, about 3,400 eligible Maryland children sat on a waiting list.[5] At that time, 31 states served all eligible children whose families applied for assistance.
- For a family at the federal poverty level, Maryland's copays in 2016 were the second-highest nationwide and had roughly doubled since 2001, adjusted for inflation.[6]

- As of early 2018, Maryland's payment rates were too low to cover the full price of care at 90% of providers,[7] and families were responsible for the difference – meaning even families receiving assistance faced potentially unaffordable bills to make sure their children were receiving care that met basic safety and developmental standards.

Fortunately, Maryland policymakers have taken major steps since that time to strengthen our Child Care Scholarship Program, which is a critical first step in addressing affordability:

- In 2018, the General Assembly enacted legislation mandating that scholarship rates be high enough to cover the price of care for at least 60% of providers, and administrative action expanded family income eligibility from approximately $35,000 to $72,000 for a family of four.
- Policymakers made further improvements in 2022. They increased scholarship rates to cover care at 70% of providers, raised the income cap to just over $90,000 for a family of four, and eliminated parental copayments for many families while drastically reducing them for all others.
- While these improvements represent important progress, Maryland's scholarship rates still fall short of the 75% percent level recommended by the federal government.



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Strengthened Child Care Scholarships Are Making a Difference

Potential impacts of 2018-forward Child Care Scholarship expansions

Enabled up to	**11,900 mothers**	to gain employment
Generated up to	**$381 million**	in increased earnings
Lifted up to	**8,800 Marylanders**	out of poverty
Generated up to	**$27 million**	in state and local revenue

These policy changes have made a **big difference** for Maryland families:

- In the first four months of FY 2024, the program served an average of more than 30,000 children, more than double the number served six years earlier.[8] This increase occurred despite a slight decline in Maryland's population in the age groups the program serves.

- While it is not known how many of the newly served families previously paid for child care out of pocket, data from the U.S. Census Bureau's Household Pulse Survey suggest that only about 36% of potentially eligible children are actually receiving child care.[9] For illustrative purposes only, if 64% of newly served children were previously not receiving formal child care, expansions to the Child Care Scholarship Program over the last six years may have enabled up to 10,900 Maryland children to access care for the first time.

- Based on the same estimate, expansions to the Child Care Scholarship Program saved about $71 million per year for families that previously paid for child care out of pocket.[10]

More Support for Child Care Means a Stronger Economy

Improvements to our Child Care Scholarship Program over the last six years have likely led to substantial economic gains.

A 2016 study published by the U.S. Department of Health and Human Services in partnership with the Urban Institute found that increasing a state's total child care scholarship expenditures by 10% would increase employment among potentially eligible mothers by 0.46%.[11]While this relationship may superficially seem modest, the real-life impacts are substantial. Maryland's Child Care Scholarship expenditures nearly tripled from FY 2018 to FY 2023, adjusted for population change and child care cost growth (due to a combination of higher participation and higher payment rates). Applying the estimate from the 2016 study, this expansion is expected to have increased potentially eligible mothers' employment rate by 5.2%, or about 11,900 women. In comparison, Maryland's overall employment rate declined by 4.3 percentage points from 2019 to 2020 (annual average).

This potential increase in employment levels means higher family incomes, lower poverty, and more tax revenue:

- Based on the average earnings of potentially eligible mothers who were employed in 2022[12], strengthening the Child Care Scholarship Program may have generated up to $381 million in women's increased annual earnings.

- While it is not feasible to estimate precise tax impacts, under reasonable assumptions, these increased earnings may have generated up to $23.9 million in new income tax revenue per year, including $14.5 million in state revenue and $9.4 million in county revenue.[13]
- Based on the difference in poverty rates of employed and non-employed potentially eligible mothers[14], strengthening the Child Care Scholarship Program may have lifted up to 8,800 Marylanders out of poverty.

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Strengthening the Child Care Scholarship Program likely also strengthened Maryland's economy by boosting household spending, meaning more sales at local businesses and more sales tax revenue. This is because working families with little financial cushion cycle a substantial share of any additional income back into the economy in the form of increased spending on necessities. These impacts may amount to as much as $127 million in increased household spending per year (including a portion that likely occurred outside Maryland) and as much as $2.7 million in increased annual sales tax revenue.

- Based on empirical estimates of how much middle-income families spend out of any additional income[15], newly employed mothers may have increased spending by up to $107 million per year due to Child Care Scholarship expansions.

- If families spend cost savings at the same rate as additional income, families that previously paid for child care out of pocket may spend as much as $20 million more each year.

- The families that benefit from a stronger Child Care Scholarship Program would likely spend their increased earnings on a mix of taxable goods such as clothing and non-taxable expenditures like groceries and car repairs. Under reasonable assumptions, this translates into up to $2.7 million per year in increased sales tax revenue.[16]

Citations

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8. Maryland State Department of Education Division of Early Childhood, Child Care Scholarship Program Historical Data, https://earlychildhood.marylandpublicschools.org/data
9. MDCEP analysis of Household Pulse Survey data, weeks 49 to 57 (September 2022 to May 2023). Respondents were coded as potentially eligible if they lived with at least one child under age 12 and had household income less than 85% of the FFY 2023 LIHEAP state median income, adjusted for household size (https://www.acf.hhs.gov/sites/default/files/documents/ocs/COMM_LIHEAP_Att1SMITable_FY2023.pdf). Because households do not necessarily correspond to families, and because the Household Pulse Survey reports income only in broad categories, this estimate should be treated as highly approximate. For this reason, the estimated number of children receiving child care for the first time is only illustrative.
10. Note that if the true number of children newly receiving care is lower than 10,900, this arithmetically means that the true cost savings for families previously paying out of pocket is more than $71 million. If either of these estimates is too high, the other is too low.
11. María Enchautegui, Nina Chien, Kimberly Burgess, and Robin Ghertner, "Effects of the CCDF Subsidy Program on the Employment Outcomes of Low Income Mothers," U.S. Department of Human Services, Office of the Assistant Secretary for Planning and Evaluation, 2016, https://aspe.hhs.gov/sites/default/files/private/pdf/253961/EffectsCCSubsidiesMaternalLFPTechnical.pdf
Note that the authors refer to a 0.48% increase in employment. The 0.46% number is based on a more conservative log-log interpretation of the estimated elasticity. Note that while not all policy-related elasticities in the study are positive, other coefficients in the model underlying this estimate (Model 4) are not close to statistical significance. Note that this study measured child care scholarship expenditures using Child Care and Development Fund (CCDF) expenditures, which are available only through FY 2020. The estimate presented here is based on MSDE Division of Early Childhood Child Care Scholarship expenditure data, which are available through the first several months of FY 2024. CCDF expenditures increased somewhat more sharply than expenditures reported by MSDE from FY 2018 to FY 2020, suggesting that this data source does not overestimate the true increase in child care scholarship funding. Expenditure data were adjusted for the change in population ages 0–12 (in accordance with the HHS study) and the increased average price of care (captured by year fixed effects in the HHS study).
12. MDCEP analysis of 2022 IPUMS American Community Survey microdata. Respondents were coded as potentially eligible if they lived with at least one of their own children under age 13 and had household income less than 85% of the FFY 2023 LIHEAP state median income, adjusted for family size. This definition was used to match the Enchautegui, et al. (2016).
13. Based on tax year 2018 individual statistics of income data from the Maryland Board of Revenue Estimates (the most recent data available; https://www.mdbre.gov/personal-statistics-of-income-reports.php), Maryland resident taxpayers with Maryland adjusted gross income between $25,000 and $75,000 paid an average of $3.81 in state income taxes and $2.46 in local income taxes for each additional $100 of income. This income group was used because potentially eligible mothers in 2022 had an average family income of $60,213, based on IPUMS American Community Survey microdata. This estimate is more conservative than an estimate based on the 4.75% statutory marginal income tax rate for this income range.
14. MDCEP analysis of 2022 IPUMS American Community Survey microdata.
15. Christopher Carroll, Jiri Slacalek, Kiichi Tokuoka, and Matthew White, "The Distribution of Wealth and the Marginal Propensity to Consume," Quantitative Economics 8, 2017, https://onlinelibrary.wiley.com/doi/epdf/10.3982/QE694 (See Table 4). This estimate uses the 0.28 baseline estimated marginal propensity to consume for a household with a ratio of wealth to permanent income between the 20th and 40th percentile, reflecting a family with limited but not extremely low means.
16. This estimate assumes that 35% of additional spending is subject to sales tax, based on FY 2022 actual sales and use tax revenues and U.S. Bureau of Economic Analysis data on Maryland personal consumption expenditures in calendar years 2021 and 2022.

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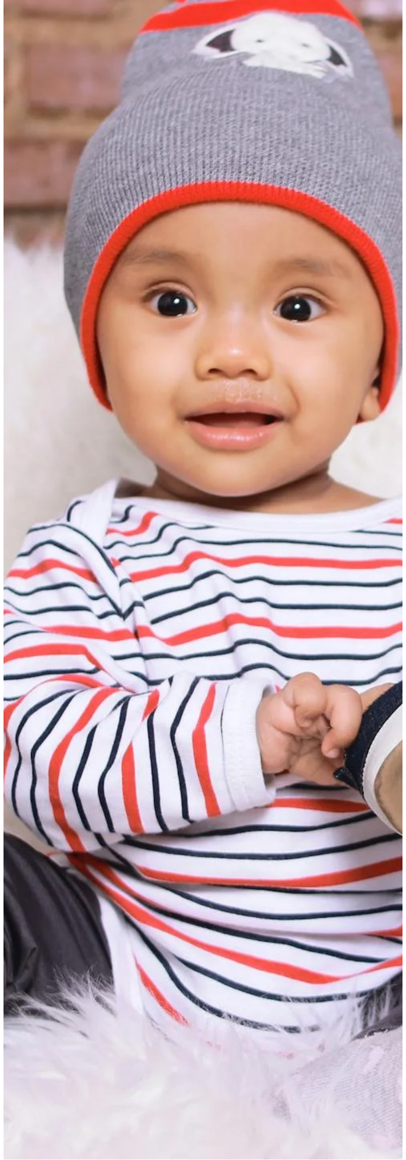

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