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## Childcare & Economic Development in Austin

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### Introduction

Demographic trends, the changing nature of work, and the breakdown of informal care networks continue to contribute to rising pressure on the America's childcare system. American women work in larger numbers compared to the past; in 1970, 55 percent of mothers worked, which rose to 66 percent by 1980. By 2022, 72.9 percent of mothers were engaged in the labor force.<sup>1</sup>

As a result, more families than ever are in search of high-quality childcare, at ever-increasing prices. Childcare costs are one of the most significant expenses in a family's budget; just over half of families nationwide spend more than 20% of their income on childcare.<sup>2</sup> Nationally, the average cost of full-time center-based care for one child in counties larger than \$1 million ranges from \$15,417 annually for infant care to \$11,050 for preschool care; these numbers are similar in Austin/Travis County.<sup>3</sup> In a 2022 survey by Care.com, families report that the cost of childcare is higher than in years past relative to their income and quality care is increasingly hard to find. Additionally, 59 percent are more concerned about childcare costs now than in years prior, which is driving significant changes, such as taking on a second job (31 percent), reducing hours at work (26 percent), changing jobs (25 percent), and leaving the workforce entirely (21 percent), to foot the bill.<sup>4</sup>

On the other side of the equation, childcare providers are equally strained. In many urban areas, rents have risen much faster than revenue, squeezing margins and compressing wages. Childcare is among the lowest paid occupations in the economy;

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<sup>1</sup> Bureau of Labor Statistics (April 19, 2023). *Employment Characteristics of Families -2022*.

<https://www.bls.gov/news.release/pdf/famee.pdf>.

<sup>2</sup> Care.com (2022). *2022 Cost of Care Survey*. <https://www.care.com/care-index>

<sup>3</sup> U.S. Department of Labor (January 24, 2023). *New Childcare Data Shows Prices Are Untenable for Families*.

<https://blog.dol.gov/2023/01/24/new-childcare-data-shows-prices-are-untenable-for-families>.

<sup>4</sup> Care.com (2022). *2022 Cost of Care Survey*. <https://www.care.com/care-index>



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nationally, childcare workers in 2022 make an average of \$13.22 per hour.<sup>5</sup> This undermines the ability of childcare firms to attract and retain high-quality workers, especially if they are attempting to serve lower and middle-income customers. This has consequences, not the least of which is exacerbating the income gap in current and future generations.

The situation outlined above is certainly evident in Austin, as for many families, access to high-quality childcare is the tip of the affordability spear. It is no secret that, while overall incomes are rising in Austin, affordability is diminishing rapidly for those who cannot command a modern-economy salary. Affordable, high-quality childcare is a piece of the broader puzzle that is especially important as the City has shifted significant economic development focus toward enabling middle-skill jobs. Meanwhile, the average wage in Austin for childcare workers is dismal. According to 2022 data from the Bureau of Labor Statistics, the average annual wage in the Austin/Round Rock MSA is \$63,890. At \$27,780, childcare workers earn only 43 percent of the overall average, and only 84 percent of the average bartender at \$32,890 (reported).<sup>6</sup>

Due to these and other factors, the state of childcare in the United States is at a crossroads. In the best of times, childcare centers struggle to hire and retain employees and many operate on razor-thin margins. The coronavirus pandemic wreaked havoc on the industry, with many centers closing permanently. The ones who did stay open were propped up by recently-ended federal pandemic relief funds. In the most recent session, the Texas Legislature elected to not step in and fund a \$2.3 billion House proposal for childcare. Childcare providers were counting on this bill to help raise the average wage of staff and educators to at least \$15 per hour. However, voters did approve authorizing local governments to eliminate property taxes on childcare facilities in a November 2023 election.

In 2021, the U.S. Department of the Treasury put out a report on the economics of childcare supply in the United State which highlights these trends. In it, the shortage of childcare was highlighted; roughly half of Americans live in “childcare deserts,” areas where there’s only one daycare spot for every three kids. The childcare centers that do exist are often in disrepair, with workers whose wages keep them at the edge of poverty. About ninety percent of childcare workers are women, and disproportionately women of color. They make, on average, \$27,000 a year, which puts “childcare worker” in the

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<sup>5</sup> U.S. Department of Labor (January 24, 2023). *New Childcare Data Shows Prices Are Untenable for Families*. <https://blog.dol.gov/2023/01/24/new-childcare-data-shows-prices-are-untenable-for-families>.

<sup>6</sup> U.S. Bureau of Labor Statistics (May, 2022). *Occupational Employment and Wage Statistics – Austin/Round Rock, TX*. [https://www.bls.gov/oes/current/oes\\_12420.htm#39-0000](https://www.bls.gov/oes/current/oes_12420.htm#39-0000).

bottom two percent of occupations. Many rely on social services to make ends meet. The report goes on to say:

The childcare sector is a crucial and underfunded part of the American economy. One in every 110 U.S. workers – and one in every 55 working women – makes a living in early childhood education and care. Parents of young children devote a sizeable share of their total income to childcare. Children benefit enormously from high-quality early childhood settings that nurture and support healthy development, all while laying the foundation for future success by supporting early learning skills. An extensive body of research describes large potential economic returns to investments in early childhood education and care for preschool children, especially for children from less advantaged families.<sup>7</sup>

TXP was commissioned by the City of Austin (COA) to update its 2018 study exploring the relationship between childcare and economic development. To that end, a review of the benefits of childcare is provided, as well as a discussion of the business case for high-quality childcare. The next section outlines the childcare situation in Austin by the numbers, which is the basis for quantifying the implications of several direct subsidy approaches that could be considered. The report concludes with overall findings and specific recommendations to the City.

## Context

Throughout most of history, the answer as to who educated the very youngest members of society was simple: mothers. Early childhood development and education took place in the home, with mothers (and often extended family) primarily responsible for the care of young children. But today, unprecedented numbers of American mothers are participating in the workforce, and parents of all types are faced with the economic reality of needing to work. Consequently, millions of young children are in paid childcare for a substantial portion of the years leading up to kindergarten. In 2019, approximately 59 percent of children aged 5 and younger (and not enrolled in kindergarten) were in some sort of care arrangement. Of these, 62 percent were in center-based care, 38 percent were cared for by a relative, and 20 percent were cared for in a private home by a nanny or babysitter.<sup>8</sup>

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<sup>7</sup> The U.S. Department of the Treasury (September, 2021). *The Economics of Child Care Supply in the United States*. <https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf>.

<sup>8</sup> National Center for Education Statistics. <https://nces.ed.gov/fastfacts/display.asp?id=4>



Research has shown that these early years are crucial; ninety percent of brain development happens from birth to kindergarten and this development has implications for school success, justice system involvement, and adult earning potential.<sup>9</sup>

### Benefits of High-Quality Childcare

The research is unequivocal and clear: investment in high-quality early care and education (ECE) pays dividends for children and their families, as well as society as a whole. Children who grow up in poverty and who lack access to educational services are particularly affected by this exposure.<sup>10</sup>

High-quality ECE programs can have long-lasting impacts on children by preparing them for formal schooling and beyond, and on parents by allowing them to participate in the workforce. Children enrolled in a high-quality program have a safe space to grow and learn, where they can explore the world around them, build relationships with trusted caring adults, feel accepted, and gain confidence to become active learners. This is especially important during the first five years of life, when 90 percent of brain development happens. A high-quality learning environment sets children up for success in school, improves health, and increases earning outcomes over their lifetimes. Children who attend high-quality early childhood programs demonstrate better math and language skills, better cognition and social skills, better interpersonal relationships, and better behavioral self-regulation than do children in lower-quality care.<sup>11</sup>

### *The Carolina Abecedarian Project*

The Abecedarian Approach is perhaps the best-known early intervention program which has been studied continuously since 1972. It is the only educational program that begins at a child's birth and continues until elementary school begins. It targets historically low-achieving children with the goal of the children achieving in line with the general population and having greater success in school. Children born between 1972 and 1977 were randomly assigned as infants to either the early educational intervention group or the control group. Children in the intervention group received full-time, high-quality education in a childcare setting from infancy through age 5. Each child had an individualized prescription of educational "games" incorporated into the day. These

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<sup>9</sup> Success by 6 Austin/Travis Coalition (2019). *A 2000 Day Journey: Strategic Plan 2019-2013*. <https://www.unitedwayaustin.org/success-by-6-plan/>

<sup>10</sup> Horm, D.M.; Jeon, S.; Clavijo, M.V.; Acton, M. Kindergarten through Grade 3 Outcomes Associated with Participation in High-Quality Early Care and Education: A RCT Follow-Up Study. *Educ. Sci.* 2022, 12, 908. <https://doi.org/10.3390/educsci12120908>

<sup>11</sup> American Academy of Pediatrics (2005). *Quality Early Education and Child Care from Birth to Kindergarten*. Pediatrics, [www.aappublications.org/news](http://www.aappublications.org/news).



activities focused on social, emotional, and cognitive areas of development but gave particular emphasis to language.<sup>12</sup> There are four basic elements to the approach, as described in a 2021 review:<sup>13</sup>

- Language Priority – making each part of the child’s day an opportunity for talking, listening, responding, and taking turns. Young babies’ glances and gestures are accepted as important parts of two-way conversation.
- Conversation Reading – reading books interactively, emphasizing the child’s active role. The adult provides graded or hierarchical prompts to gradually elicit more developmentally advanced responses from the child.
- Interaction Games – playing interactively through adult-child games tailored to the child’s interests and developmental level. While the action of the game is simple, the significance to the child’s development can be profound.
- Enriched Caregiving – incorporating educational content and social-emotional content into the child’s daily care routines such as feeding/eating, changing diapers/toileting, bathing/washing hands, and getting dressed/undressed. Adults enhance the basic level of care they provide by emphasizing its social-emotional aspect as well as incorporating explicit educational content such as shapes, sizes, colors, numbers, and processes.

Researchers monitored children’s progress over time with follow-up studies conducted at ages 12, 15, 21, 30, and 35. The findings were impressive:

- At age 21, the treated group had maintained statistically significant advantages both in intellectual test performance and in scores on academic tests of reading and mathematics, and the treated group also had attained more years of education. In addition, recipients of the Abecedarian curriculum were more likely to attend a 4-year college or university, more likely either to be in school or to have a skilled job, or both. They also were less likely to be teen parents, less likely to smoke marijuana, and less likely to report depressive symptoms, when compared to individuals in the control group.
- At age 30, the treated group was more likely to hold a bachelor’s degree, hold a job, and delay parenthood, among other positive differences from their peers.

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<sup>12</sup> Frank Porter Graham Child Development Institute of the University of North Carolina at Chapel Hill (N.D.) *The Abecedarian Project*. <https://abc.fpg.unc.edu/>

<sup>13</sup> Sparling, J.; Ramey, S.L.; Ramey, C.T. (2021). *Mental Health and Social Development Effects of the Abecedarian Approach*. *International Journal of Environmental Research and Public Health*. <https://doi.org/10.3390/ijerph18136997>.



- At age 35, the treated group enjoyed better physical health in their mid-30s than peers who did not attend the childcare-based program. They had lower rates of pre-hypertension and a significantly lower risk of experiencing total coronary heart disease in the next 10 years. These results are groundbreaking; it was the first time that actual biomarkers, as opposed to self-reports of illnesses, have been compared for adult individuals who took part in a randomized study of early childhood education.<sup>14</sup>

The Abecedarian Project also brought unmistakable advantages for the teenage mothers with children in the study. By the time their children were 4½ years old, these mothers were more likely to have finished high school and undergone post-secondary training, more likely to be self-supporting, and less likely to have more children. Additional training, employment experience, and education led to increased earnings and decreased reliance on social assistance, all of which were important factors when independent economists calculated cost-benefit ratios for the project.

The economic benefit was clear. For every dollar spent on the program, taxpayers saved \$2.50 as a result of higher incomes, less need for educational and government services, and reduced health care costs. In short, the project has demonstrated that high-quality, enriched early education environments can help children surmount some of the disadvantages of poverty. Not only can the effects be far-reaching as children progress through adulthood, but the long-term savings to society also can be considerable.<sup>15</sup>

#### *Tulsa Educare*

Another recently published study<sup>16</sup> adds to this growing body of research indicating that high-quality early care and learning programs can positively impact children for years into the future. Beginning in 2010, researchers in Tulsa, Oklahoma, followed a cohort of 37 children who were 19 months or younger when they enrolled in Tulsa Educare, a high-quality early learning program. A team from the Early Childhood Education Institute at the University of Oklahoma, Tulsa, regularly evaluated the children's academic outcomes and executive function through the end of third grade. These outcomes were then compared to a cohort of 38 children, serving as a control group, who were unable to get a spot at Tulsa Educare. (Children in the control group were

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<sup>14</sup> Frank Porter Graham Child Development Institute of the University of North Carolina at Chapel Hill (N.D.) *The Abecedarian Project*. <https://abc.fpg.unc.edu/>

<sup>15</sup> Ibid.

<sup>16</sup> Horm, D.M.; Jeon, S.; Clavijo, M.V.; Acton, M. (2022). *Kindergarten through Grade 3 Outcomes Associated with Participation in High-Quality Early Care and Education: a RCT Follow-Up Study*. *Educ. Sci* 12, 908. <https://www.mdpi.com/2227-7102/12/12/908>



cared for by relatives or family friends, enrolled in family child care homes or attended a public school preschool program or local Head Start program.)

The Educare cohort, who attended the program for an average of 37 months, performed better on all academic measures than their peers who did not attend the program. Parents of the Tulsa Educare cohort also reported fewer behavior problems. Important to the results was the emphasis on the timing and duration of these interventions; they found that children need to be enrolled early, in infancy or early toddlerhood, to reap these benefits. When children start young, they can realize the benefits of a high-quality program at a time when their brains are growing at a rapid pace. An infant's brain doubles in size before age 1. During this time and the toddler years that follow, interactions between young children and their caregivers have a profound impact on the brain's development and wiring. As lead researcher Horm noted, "the infant-toddler period is increasingly recognized as a unique developmental stage that really does set the path for all that follows."<sup>17</sup>

### Making the Business Case

In addition to being better for the immediate well-being of young children, providing high-quality childcare makes good business sense. In 1940, 1 in 10 children under the age of 5 lived in a household where both parents worked; today, two-thirds of children do.<sup>18</sup> Women entering the workforce has resulted in significant economic gains for our country, yet women's labor force participation has stagnated in recent years, partly due to lack of childcare options. The following statistics from the U.S. Chamber of Commerce Foundation highlight the importance of this issue:<sup>19</sup>

- Women are nearly half of the American workforce and mothers are 40% of primary breadwinners.
- Millennials make up over a third of the workforce, and millennial women are responsible for 8 out of 10 births.

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<sup>17</sup> The Hechinger Report (August 10, 2023). *Infants and toddlers in high quality child care seem to reap the benefits longer, research says.*

<https://hechingerreport.org/infants-and-toddlers-in-high-quality-child-care-seem-to-reap-the-benefits-longer-research-says/>

<sup>18</sup> Glynn, Sarah Jane (August 2012). *Child Care: Families Need More Help to Care for Their Children.* Center for American Progress,

[www.americanprogress.org/issues/economy/new/2012/08/16/11978/fact-sheet-child-care/](http://www.americanprogress.org/issues/economy/new/2012/08/16/11978/fact-sheet-child-care/)

<sup>19</sup> U.S. Chamber of Commerce Foundation (2018). *Leading the Way: A Guide for Business Engagement in Early Education.*

<https://www.uschamberfoundation.org/reports/leading-way-guide-business-engagement-early-education>





- Without women's labor force participation since 1970, the U.S. economy would be \$2 trillion less and median family income would be \$14,000 less.

Almost 13 million Americans in their prime working years have children under the age of 6.<sup>20</sup> Reliable childcare is essential for parents to be able to complete postsecondary education (thereby increasing earning potential), enter the workforce, and remain employed and productive at work. More than a quarter of college students are raising children; only 27% of them attain a degree within six years, and more than half of those that drop out cite "family commitments" as the reason. Among the nonworking poor with young children (11.4% of the nonworking poor), 70% cite "taking care of home/family" as the reason they are not in the workforce. Other studies have shown that affordable high-quality childcare greatly influenced workforce participation and productivity, with many parents missing work regularly due to problems with childcare.<sup>21</sup> One 2016 study found that working families across the country lose \$8.2 billion in wages annually due to inadequate childcare access.<sup>22</sup> That study is reinforced by the work of ReadyNation, who conducted a nationwide survey on the workforce implications of inadequate childcare. The following figures summarize their results:

**Figure 1: Time and Effort at Work: Due to Childcare Issues Have You:**

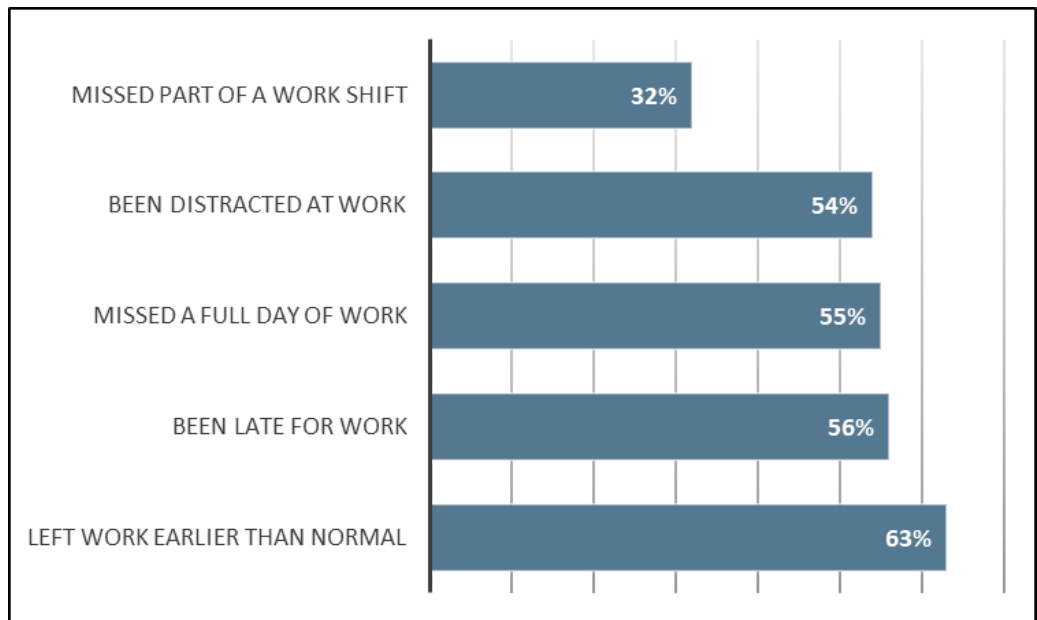
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<sup>20</sup> Bureau of Labor Statistics (April 20, 2017). *Employment Characteristics of Families – 2016*. U.S. Department of Labor, [www.bls.gov/news.release/pdf/famee.pdf](http://www.bls.gov/news.release/pdf/famee.pdf).

<sup>21</sup> U.S. Chamber of Commerce Foundation (June 2017). *Workforce of Today, Workforce of Tomorrow: The Business Case for High-Quality Childcare*. <https://www.uschamberfoundation.org/reports/workforce-today-workforce-tomorrow>

<sup>22</sup> Glynn, Sarah Jane & Corley, Danielle (September 22, 2016). *The Cost of Work-Family Policy Inaction: Quantifying the Costs Families Currently Face as a Result of Lacking U.S. Work-Family Policies*. Center for American Progress, [www.americanprogress.org/issues/women/reports](http://www.americanprogress.org/issues/women/reports).

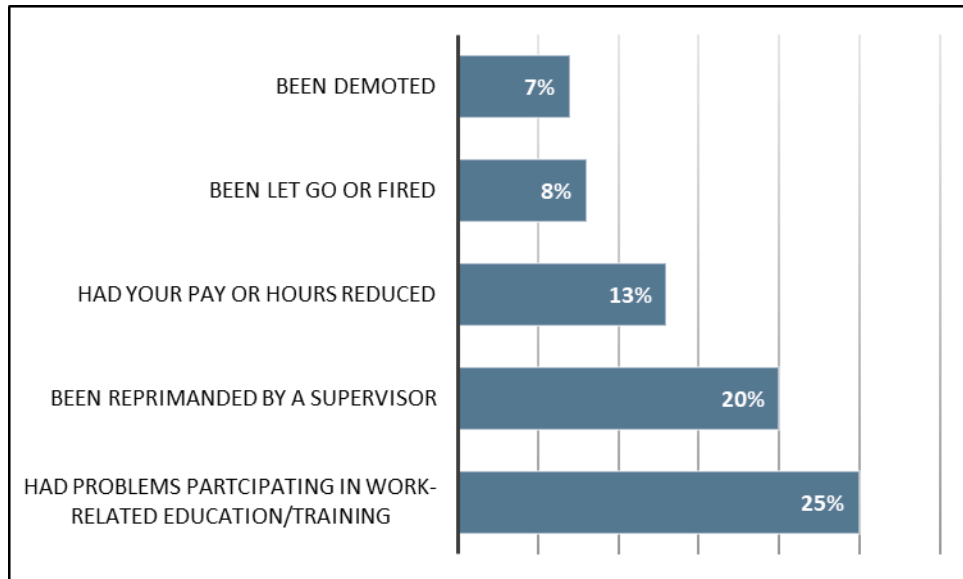




Source: ReadyNation, TXP

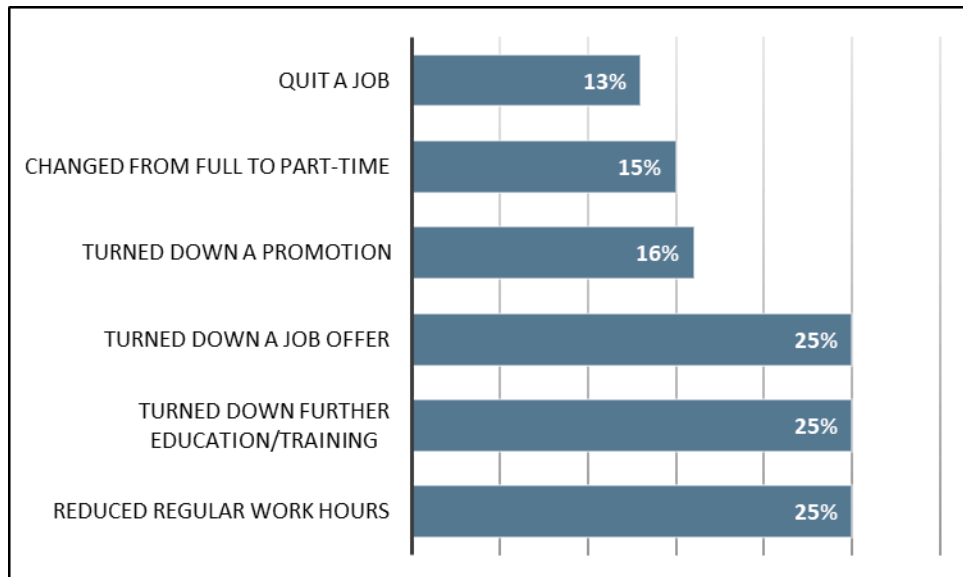


**Figure 2: Productivity/Performance at Work: Due to Childcare Issues Have You:**



Source: ReadyNation, TXP

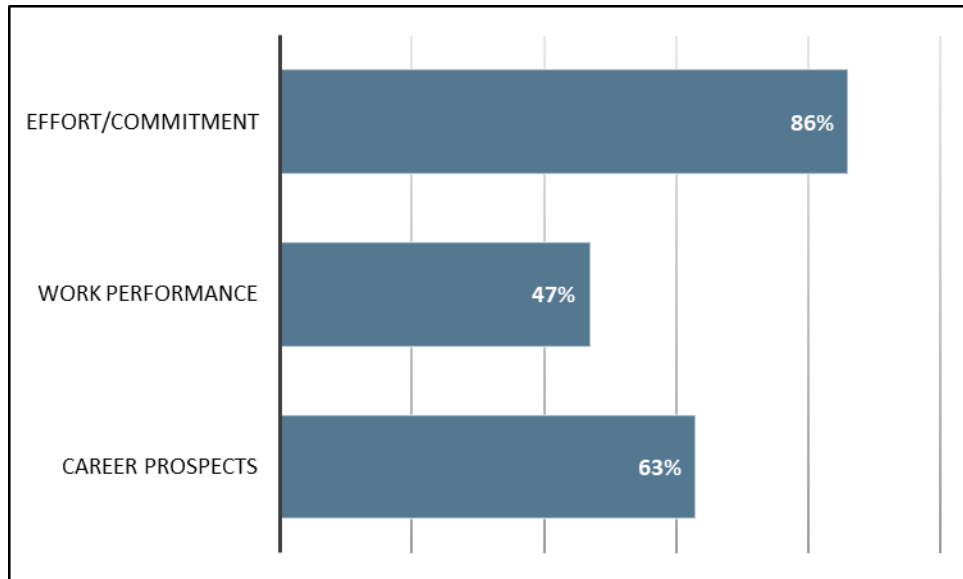
**Figure 3: Career Pathways: Due to Childcare Issues Have You:**



Source: ReadyNation, TXP



**Figure 4: Accumulated Adverse Effects Due to Childcare Issues On:**



Source: ReadyNation, TXP

**Table 1: How Childcare Problems Adversely Affect the Economy**

Individual Parents	Businesses	Taxpayers/Jurisdictions
Lost earnings now due to lower productivity and less work experience	Lost existing revenue from lower output	Lost other tax revenue from lower economic activity
Extra costs of job search for alternative work and childcare arrangements	Extra costs associated with employee turnover and absenteeism	Lost sales and consumption tax revenue
Lost future earnings from lower productivity, less work experience, and lower skills development	Lost future revenue from lower output	Lost future tax revenue from lower economic activity

Source: ReadyNation, TXP

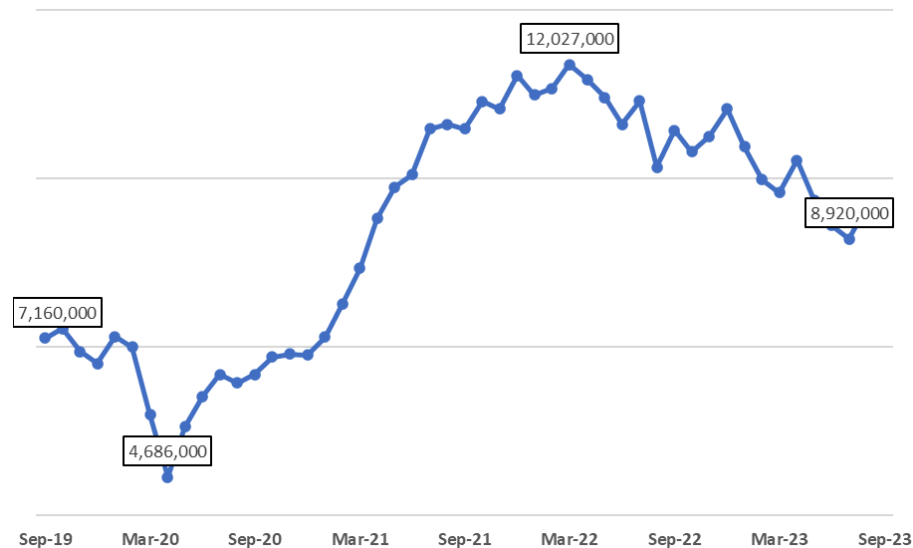
**Table 2: Annual Economic Burden per Worker**

Individual Parents	Businesses	Taxpayers/Jurisdictions
<b>\$3,210</b> Lost earnings per year	<b>\$860</b> Lost existing revenue	<b>\$400</b> Lost other tax revenue
<b>\$140</b> Extra costs of job search	<b>\$290</b> Extra turnover costs	<b>\$230</b> Lost sales tax revenue

Source: ReadyNation, TXP

Post-pandemic the situation has only worsened. Massive federal stimulus in general and specific financial support for childcare helped enable both families and providers to withstand the challenges of COVID-19, but that support has come to an end. Meanwhile, labor force participation rates have yet to return to pre-pandemic levels; this contributes to a chicken/egg problem of too few childcare workers resulting in reduced supply, driving prices further out of reach for many families, undermining overall labor force participation, and hurting the economy.

**Figure 5: Total National Job Openings**



Source: BLS, TXP

Lack of access to childcare clearly is a contributing factor toward the overall shortage of workers facing the nation. Beyond the ability to secure needed workers, high-quality, affordable childcare confers other benefits, as outlined in a brief published by the Marguerite Casey Foundation:<sup>23</sup>

- Increased worker productivity. Affordable and childcare contributes to a more productive workforce, reduces absenteeism, and improves employee retention. Among businesses that make these investments, 85 percent report improved employee recruitment and nearly two out of three report decreased turnover.
- Boost to businesses' bottom line. Childcare breakdowns leading to absences cost businesses \$3 billion annually in the United States. When businesses are proactive about addressing childcare, their bottom lines benefit. For every \$1 that employers invest in back-up childcare, they can receive a return of \$3 to \$4

<sup>23</sup> Marguerite Casey Foundation (2016). *High-Quality, Affordable Childcare for All: Good for Families, Communities, and the Economy*. [https://www.policylink.org/sites/default/files/Childcare%20for%20All\\_FINAL\\_0.pdf](https://www.policylink.org/sites/default/files/Childcare%20for%20All_FINAL_0.pdf)

due to increased employee productivity and reduced employee turnover.

- Employment and educational support for low-income working parents. The childcare industry supports the direct and indirect jobs of many, and, with continued investment, could further grow employment opportunities. In one study of student parents at community colleges, 80 percent of respondents reported that the availability of childcare was very important to their decision to pursue education, and almost 60 percent said they would not have been able to continue college without childcare services.
- Higher earnings for parents in the workforce. Childcare provides an essential infrastructure that allows parents to be employed outside the home and to provide for their families. Every dollar invested in the formal childcare sector results in \$15.25 in additional income for parents. In addition, affordable childcare increases family incomes by allowing more parents—especially mothers—to work. If childcare costs decreased by 10 percent, the employment rate for single women would increase by 2 percent, and for married women it would increase by 10 percent. Full government funding of early-childhood education (including childcare) would increase overall maternal employment by up to 10 percent.
- Increased spending and tax revenues. Public investment in affordable, high-quality childcare increases the ability of parents to work and the amount of tax revenues collected thus resulting in lower government spending over the long term. Every dollar invested in high-quality early-childhood education (including childcare) results in public savings of up to \$16 in costs related to special education, grade retention, criminal justice, and welfare.

In addition to strengthening today's workforce by supporting parents, childcare is simultaneously laying the human capital foundation – whether well or poorly – for much of our nation's future workforce.<sup>24</sup> A report on the economic impact of childcare noted Texas is missing out on economic gains since only 11% of childcare providers are certified high-quality by state or national standards.<sup>25</sup> High-quality programs can help children build the foundation and begin to develop skills for critical executive functions such as working memory, impulse control, and cognitive flexibility – all of them key to succeeding in both school and the workplace. Even though Texas holds a reputation as a business-friendly state, Forbes reported that from an economic standpoint, “one of

<sup>24</sup> U.S. Chamber of Commerce Foundation (June 2017). *Workforce of Today, Workforce of Tomorrow: The Business Case for High-Quality Childcare*. <https://www.uschamberfoundation.org/reports/workforce-today-workforce-tomorrow>.

<sup>25</sup> Children at Risk (November 2018). *Building Brains & Economies*. <https://childrenatrisk.org/building-brains/>

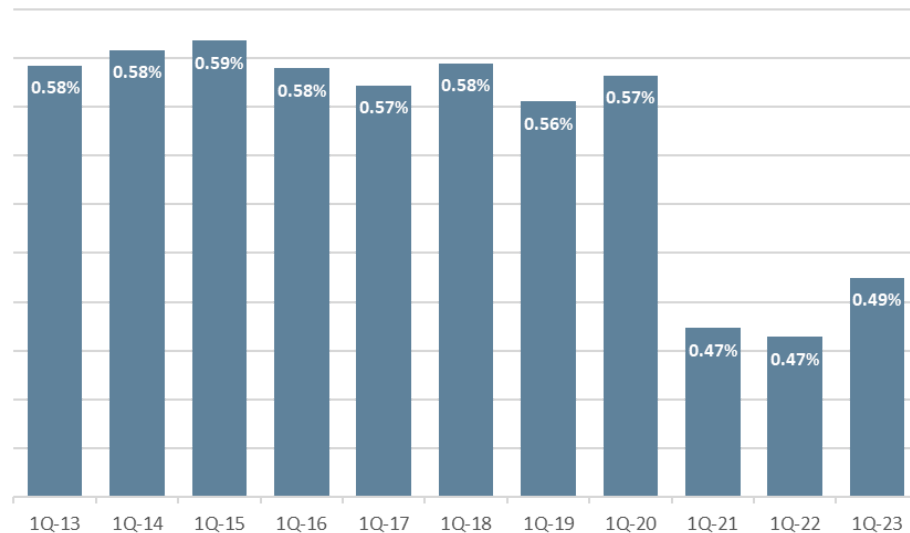


the only things holding Texas back is the education rate among its labor supply.”<sup>26</sup> Thus, investing in Texas children is a proxy for investing in the future health and vitality of our state as a whole.

## Childcare in Austin

There are numerous indications, both data-based and anecdotal, that the childcare market in Austin is not meeting the community’s needs, especially for those who are working hourly jobs and/or attempting to (re)enter the labor force. One measure is the number of childcare workers reported in the local economy. Over the past ten years, childcare workers as a share of total employment in Travis County has moved from 0.58 percent in 2013 to 0.49 percent in the first quarter of this year (a total of 4,367 workers). Childcare’s share of total employment was remarkably consistent from 2013 right up to the pandemic, where it fell sharply before modestly recovering this year. Using the average from 1Q-2013-2020 as the benchmark (0.58 percent), Travis County should have approximately 5,131 childcare workers, implying a shortage of 764. At an overall blended ratio of caregiver to child of 10.83 (meaning that, on average, one worker takes care of approximately 11 children), the implication is that the region is unable to serve the equivalent of 8,276 kids.<sup>27</sup>

**Figure 6: Childcare Workers as a Share of Total Travis County Employment**



Source: BLS, TXP

<sup>26</sup> Badenhause, Kurt (November 12, 2014). *Texas Leads Best States for Future Job Growth*. Forbes, <https://www.forbes.com/sites/kurtbadenhause/2014/11/12/texas-leads-best-states-for-future-job-growth/>

<sup>27</sup> These blended figures represent suggested caregiver/child ratios from infant through school age and the actual number of kids served in each category used to weight each.

These estimates give a sense of the overall childcare market challenges in the Austin area. This has been the situation for some time. Just over four years ago, TXP wrote:

Access to high-quality childcare in Austin is a classic case of too little supply, too much demand, and not enough resources among the customer base to adequately pay. The details are interconnected and daunting. Since many who need childcare cannot afford to pay a market rate, providers struggle to pay wages at a level that attracts and retains quality employees. Meanwhile, the burgeoning local real estate market yields rents that are way out of reach for providers that don't either already own their facilities or have a favorable long-term lease in place, forcing many to locate either well away from their client base or simply shut down when the rent doubles.

Post-pandemic, these trends have only come more fully into focus. There may be some relief coming on the real estate side of the equation, as a sharp downturn in the commercial/office market and the passage of the recent statewide property tax exemption that cities and counties may grant to licensed providers should both support lower costs of occupancy. This is welcome, especially for existing facilities facing tight margins. However, labor/personnel typically are the vast majority of the overall costs of running a childcare facility, meaning that the market imbalance between supply and demand will not be resolved by this change in market conditions. In other words, a tax break and cheaper rent are valuable, but likely not sufficient to comprehensively address the market imbalance.

In sum, childcare for the affluent is accessible (though not without challenges) and extremely challenging for the rest of the working-adult/student population, absent family circumstances or association with a religious or other group that can offer discounted services. This has become a significant barrier to employment in Austin and is an important part of the overall affordability conversation. Past TXP recommendations have centered on initiatives that do not include direct subsidy, such as tax incentives for firms that enable childcare for employees, recruitment of potential childcare workers from the higher education student community, and favorable regulatory treatment for those willing to include affordable childcare in new development. While some of these recommendations have been implemented, the continued crisis clearly calls for more significant action. In particular, the City of Austin could consider both supporting demand, through direct subsidy, and addressing the shortage of childcare workers (supply), via effectively augmenting the inducement offered to enter the childcare profession.





## Direct Subsidy Illustrations

Given resource constraints, public intervention in the childcare market traditionally has focused on supporting lower-income families who have the least capacity to pay. The Texas Workforce Commission, through Workforce Solutions, currently provides direct subsidies for childcare throughout Texas, including in the Capital Area (which is defined as Travis County). Extensive data on program participation, market rates, demographics and income levels of participants, and data on providers is found at [https://ccbn.twc.texas.gov/childcarenumbers/Capital\\_Area\\_Workforce\\_Development\\_Board\\_monthly.html](https://ccbn.twc.texas.gov/childcarenumbers/Capital_Area_Workforce_Development_Board_monthly.html) as well as <https://www.twc.texas.gov/programs/child-care/data-reports-plans>. These programs have always been somewhat over-subscribed, but deteriorating market conditions have swollen waiting lists. As of November 2023, the Capital Area waitlist totals 3,610 children, broken down as follows:

- Infants (0-17 months) – 779
- Toddlers (18-35 months) – 876
- Preschool (3-5 years) – 1,161
- School-Age (6-12 years) – 791

### *Scenario #1*

Conversations with local stakeholders indicate that the greatest need is to support families with the youngest children, and that the focus therefore should be on infants and toddlers. As of November, the total number of children on the waiting list in these two categories is 1,655. Case level data from the 4<sup>th</sup> Quarter of 2021 (the most recently available detailed information) indicated that 28.3 percent of the children participating in the TWC program reside in Travis County outside of the City of Austin. Applying this percentage across both categories reduces the waiting list figure to 1,186 City residents. This same data set indicates that, on average, participants use 194 days of childcare annually, or the equivalent of just over 16 days per month, reflecting a mix of full-time and part-time workers. Meanwhile, TWC has released its maximum daily reimbursement rates for FY 2024. Different types of facilities at different rating levels qualify for different maximum daily reimbursement rates; using the rates for TRS 3 Star Licensed Centers as the base, a blended rate based on the waiting list and actual program participants is \$54/day.<sup>28</sup> Federal guidance suggests that childcare should cost no more than the equivalent of 7 percent of household income; actual program participant data indicates average monthly income of \$2,861 during 4<sup>th</sup> Quarter 2021.<sup>29</sup> Using this figure, 7 percent of monthly income is just over \$200. The average cost of

<sup>28</sup> Note: All currency figures in this section have rounded to nearest dollar.

<sup>29</sup> Wages have certainly risen in the past two years, but the most recently available data is used in order to be conservative.

infant/toddler childcare, meanwhile, is \$872/month (16 days \* \$54/day), indicating a net daily subsidy cost of \$42 (assuming the family pays the equivalent of 7 percent of annual income, which is \$200/month - \$200/\$871 yields the family paying just under 23 percent of the monthly cost on average). Taken together, 1,186 City residents using 194 days of childcare per year at a net daily subsidy cost of \$42 equals \$9,555,389.

#### *Scenario #2*

The largest single segment on the waiting list is pre-school children, ages 3-5. Applying the same parameters as outlined in Scenario #1, there should be 832 City of Austin residents in this age bracket on the waiting list; using a blended daily rate for this age group of \$47 and the same co-pay assumption yields a net daily subsidy rate of \$37. As a result, clearing the waiting list for this group would cost an estimated \$5,902,068 (832 children \* \$44/day \* 194 days). If there was a desire to fully clear the waiting list by providing subsidies to school age children, the annual cost would be an additional \$3,812,068 (567 children \* a net blended daily rate of \$35 \* 194 days).

In sum, eliminating the current TWC waiting list could cost the City somewhere between \$9.6 and \$19.4 million annually, depending on what segments of the list are addressed.

### **Enhancing the Supply of Childcare Workers**

#### ***Kentucky Scenario***

As discussed earlier, the Austin area likely is short thousands of childcare workers, at least in part due to the cost of childcare for those who work in the industry itself. Aware of this dynamic, in 2022 the State of Kentucky made all childcare employees eligible for free childcare, regardless of household income. The idea emerged after the State saw a sharp drop in the number of families accessing childcare subsidies in the pandemic – from about 30,000 to just 17,000 children. It wasn't that families didn't need childcare as in the past; many parents were desperate to get their children into care so they could return to work. The problem was that childcare centers did not have open spots because there was a shortage of workers.

During the pandemic, employers competing for employees raised the wages paid to lower skilled workers. Target was paying \$17 per hour, and Domino's started employees at \$15 per hour. At an average wage of \$12 per hour, many childcare workers left the field for more lucrative positions, leaving empty classrooms and fewer open spots at many childcare centers. Kentucky's solution was designed to help parents who left jobs to avoid daycare expenses while at the same time creating more spots for other parents by having more teachers available. After instituting the new subsidies for childcare employees, the number of children receiving state subsidies more than doubled to



40,000, including 3,600 children of childcare workers.

#### *Application in Austin*

By way of illustration, assume the City decides to support an additional 500 childcare workers by paying for their children's care, and that each worker has 1.62 children who will need daycare (which is based on existing ratios). Using the TWC waiting list data as guidance on the age ranges (and continuing to use TRS Level 3 Licensed Facility maximum rates) a blended daily net subsidy rate would be \$50. In this case, assume a full-time worker is paid the most recently reported weekly wage in childcare, which according to the QCEW is \$652/week for 1<sup>st</sup> Quarter 2023, or \$33,904 annually. Applying the 7 percent cost parameter yields an annual family share for childcare of \$198. If full-time is 260 days per year (52 weeks \* 5 days/week), then the annual cost per full-time worker per child would be \$12,971; netting out the family share of \$2,373 leaves a net per worker subsidy cost of \$10,598 per child in this scenario, or \$17,169/worker. At 500 additional childcare workers, that equals \$8,584,380 per year to pay the balance of their childcare costs.

#### **Economic Impact**

Stimulating the childcare industry has economic implications. The efforts outlined above will translate directly into increased revenue for childcare providers, which in turn will ripple through the local economy. See Table 3 below for the impact under different scenarios; if all waiting lists were cleared and childcare was provided to 500 new childcare workers, the impact of that increased revenue to providers could be as large as \$66 million annually, in the process supporting an additional 1,940 jobs (not including the 500 new childcare workers enabled).

**Table 3: Economic Impact of Increased Childcare Revenue**

(\$Millions)	Number of Children	Direct Revenue	Output	Value-Added	Earnings	Employment
Infants/Toddler	1,186	\$12.41	\$24.21	\$15.63	\$8.92	716
Pre-School	832	\$7.66	\$14.95	\$9.65	\$5.51	442
School-Age	567	\$4.95	\$9.66	\$6.23	\$3.56	286
New Childcare Workers	500	\$8.58	\$16.75	\$10.81	\$6.18	496
<b>Totals</b>	<b>3,085</b>	<b>\$33.60</b>	<b>\$65.56</b>	<b>\$42.33</b>	<b>\$24.17</b>	<b>1,940</b>

Source: TXP

In addition, clearing the waiting list presumably enables subsidy recipients to either enter the labor force or increase their hours at work. Currently, subsidy recipients have to either be employed, actively looking for work, or in school. According to the most recently available data, 86.46 percent of current subsidy recipients are either employed, or both receiving training and employed. As stated above, the data indicates an average

of 1.62 children for every family served. Given an average monthly income of \$2,861 for existing program participants who are employed, Table 4 outlines the workforce implications of enabling more parents to work, with columns labeled Total Jobs and Total Wages including the secondary, or ripple effects.

**Table 4: Economic Impact of Increased Workforce Participation**

(\$Millions)	Number of Children	Direct Jobs	Direct Wages	Total Jobs	Total Wages
Infants/Toddler	1,186	633	\$21.73	813	\$34.36
Pre-School	832	444	\$15.24	570	\$24.10
School-Age	567	303	\$10.39	388	\$16.43
New Childcare Workers	500	500	\$16.95	642	\$26.80
<b>Totals</b>	<b>3,085</b>	<b>1,880</b>	<b>\$64.32</b>	<b>2,413</b>	<b>\$101.68</b>

Source: TXP

### Additional Recommendations

1. **Explore providing existing employers a property tax incentive for facilitating childcare.** The details would need to be worked out, but the City could consider offsetting some of the costs employers incur related to childcare, either on-site or as part of an employee's compensation package, through a property tax incentive. Ideally, other eligible local taxing jurisdictions would collaborate, extending the reach and impact of the program.
2. **Make publicly-owned property/facilities available to childcare providers at reduced or nominal cost.** The City likely has a number of facilities that could house childcare programs for little incremental cost. Terms and conditions related to what organizations could qualify to access these facilities would have to be determined, and it is possible there would need to be some investment in renovation and/or equipment. This idea could extend the reach of the recent successful ballot initiative to allow property tax breaks.
3. **Create a centralized childcare "clearinghouse" of information related to availability throughout the community.** Finding workable childcare is a daunting task for any family and can be especially challenging for those who are not well-versed in searching and securing these kinds of services. The City should consider establishing and maintaining a database of information on availability, costs, locations, etc. for every childcare facility willing to participate (and participation should be mandatory for any facility serving subsidized clients). This information could be available in real-time online, and there also could be human "navigators" who need the assistance.
4. **The City could actively solicit local institutions of higher learning for help,**



**especially on the labor force side.** Students could be an important part of addressing the labor force challenges, as part-time work tied to academic programs, e.g. internships, could expand the number of workers at lower costs.

5. **The City could be the convener/catalyst for other major employers, especially on the public/not-for-profit side, to develop internal childcare programs.** Some of this is already in process; ACC, for example, is working on creating a childcare structure that will serve its constituents. Austin is home to a number of large organizations, both public and private; addressing their childcare issues internally both serves a large number of people, and also frees up resources to apply to those who are not in this pool.

## Conclusions

Signs of economic challenges are appearing in Austin, as growth in measures such as employment and sales tax slows and the vacancy rate for commercial real estate rises. Unlike past periods of slowdown/recession, however, the labor market remains fairly robust as the unemployment rate reflects a large number of jobs that remain unfilled. For many who would like to occupy these positions, access to affordable, high-quality childcare is a significant stumbling block to economic improvement. Moreover, the situation is unlikely to change, absent significant intervention. As we quoted childcare advocacy group Opportunities Exchange four years ago:

The business model for childcare, which is a market-based system, is broken. Most childcare centers are simply too small to operate efficiently and most leaders are skilled in child development, not business. Even with efficient management, the cost of delivering high-quality childcare is higher than market prices – especially for infants and toddlers. The result is the even well-managed programs struggle to generate sufficient resources to pay decent wages and benefits, keep ratios at best practice levels, or invest in the professional development, planning and supplies/equipment needed to improve the quality of the program. Bottom line – it is almost impossible to deliver sustainable, high-quality, full-day, year-round childcare for infants and toddlers at a price that families can afford or are willing to pay.

Recent developments definitely will help the situation, especially as the City moves expeditiously to implement the property tax break that has just been authorized by the voters of Texas. It is an unfortunate reality, however, that a true market-based system of childcare, especially for younger children, is unworkable. High-quality childcare should be seen in the same light as education in general, in that it is a public good that should



be supported with resources beyond the fee-for-service implied in a strictly market-based system. This is especially important for younger children, as quality care of infants and toddlers is a key foundational element of a child's overall educational experience. Beyond the impact on the children themselves, access to quality, affordable childcare can be the difference between economic success and continued dependence on the social services safety net for many families. This has real economic and fiscal consequences, including for the City of Austin; labor force participation directly correlates with reduced need for social services. Previous work by TXP pegged the cost per participant in the City's social services programs at \$3,000 annually; given that analysis was done almost 10 years ago, the current figure likely exceeds \$4,000 based on inflation alone. That having been said, the costs of providing subsidized childcare are not trivial, and it is likely that hard choices will have to be made as the City considers resource allocation going forward. The illustrations provided here are designed to inform that discussion by enabling policymakers to see a more complete picture of the impact of subsidizing childcare; if the City is financially able, the impact for the families involved could well be life-changing, and the community inevitably will be better off.

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