



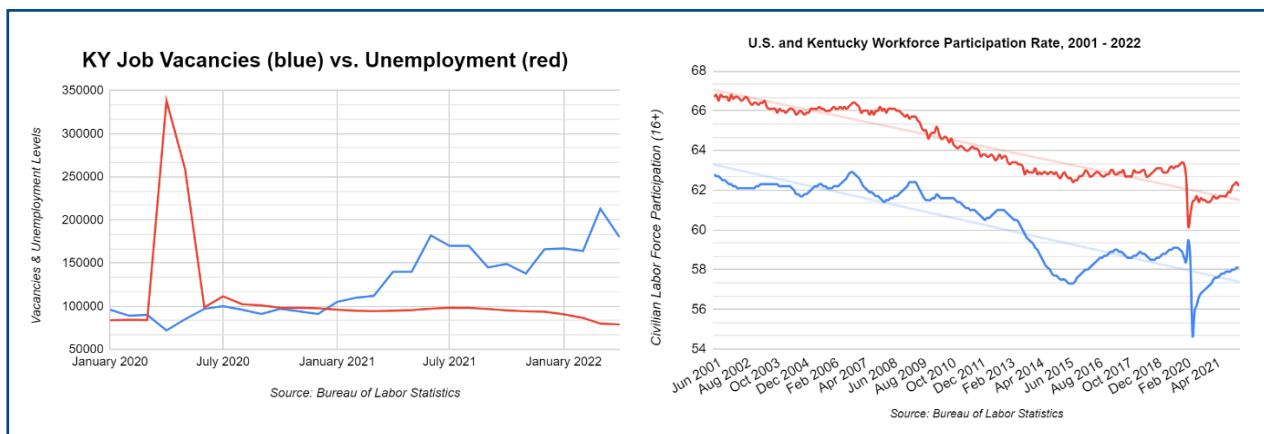
Kentucky Chamber

Child Care Policy Recommendations by the Kentucky Chamber of Commerce

The Business Case for Child Care in Kentucky

Access to affordable, quality child care is a critical business and economic concern. Quality child care not only builds the foundations for Kentucky’s future workforce – it also allows for increased workforce participation for Kentucky parents and guardians.

Increasing workforce participation is urgent in Kentucky. The Commonwealth has one of the top ten lowest workforce participation rates in the nation, at just 58.1 percent in June 2022. This is more than four points below the national workforce participation rate of 62.2 percent and comes at a time when there are approximately 170,000 unfilled jobs in the state. As of May 2022, there were at least two unfilled job vacancies for every unemployed Kentuckian looking for work. More troubling, a [report from the Kentucky Chamber Foundation](#) last year illustrated how Kentucky’s workforce participation rate has been in a steady state of decline for two decades, driven by a multitude of factors such as demographic change and barriers to work. Kentucky’s low rates of workforce participation harm economic development in the state by discouraging firms from locating in the Commonwealth and reducing productivity for in-state employers.



A key factor keeping thousands of Kentuckians from being able to actively participate in the workforce is a lack of access to affordable, quality child care. Without a safe, educational environment to care for their child or the ability to afford the care that might be available, many Kentucky parents and guardians find themselves shut out of the workforce. Survey data suggests that, nationally, [one in five](#) parents or guardians have had to quit a job to stay at home with their child. During the economic recovery from COVID, [50 percent](#) of parents cited child care as a key reason for not being able to return to work. According to [U.S. Census Bureau](#) data, roughly 45,000 Kentuckians may be sitting out of the workforce due to child care issues. If these individuals were able to gain access to affordable care for their children, it could increase workforce participation in Kentucky by more than a full percentage point. Altogether, Kentucky’s child care crisis may be [costing](#) the state’s economy up to \$3.23 billion in lost productivity, wages, and state and local tax revenues.

Increasing access to affordable, quality child care should be a critical component of Kentucky's broader strategy to increase workforce participation. This paper outlines six specific *policy* recommendations from the Kentucky business community to achieve this objective.

Policy Recommendations

1. Ensure the Success of House Bill 499

House Bill 499 offers a pathway to increasing private sector engagement and investment in solving child care challenges for Kentucky workers. In turn, it also offers employers a powerful new talent attraction and retention strategy for businesses struggling to hire and keep staff. While some larger and even midsize employers have been successful in implementing employee-specific on-site or off-site child care solutions, many smaller businesses have fewer options available to them. The Employee Child Care Assistance Partnership offers a tool and strategy that will give smaller and midsize employers more options in implementing child care solutions for their workforces.

Specifically, [House Bill 499](#) creates a mechanism to match state dollars with employer dollars to assist eligible workers with child care expenses. Under the Employee Child Care Assistance Partnership, if an employer provides a worker with financial assistance to help defray the cost of child care, the state will match that contribution on a dollar-for-dollar basis. Various stipulations and guidelines apply. For example, employer payments are only eligible if they are made to an ALL-STAR rated provider. In addition, the employer, provider, and employee must all reach an agreement and gain approval from the Cabinet for Health and Family Services. The state match fluctuates based on the employee's household income, with lower-income families eligible to receive a 100 percent match and scaling down as income levels rise. One of the key benefits of this model is that it could assist some families transitioning off of government subsidies for child care.

Direct financial assistance from employers to child care providers on behalf of an employee is a [relatively rare](#) employer-provided benefit. House Bill 499 has the potential to change that dynamic and help normalize child care as a benefit of employment. This could help thousands of Kentucky families afford care without breaking the bank and thereby lessen the possibility of them exiting the workforce due to the cost of child care.

Because this is an innovative and unique policy concept, it will require commitment and focus on the part of policymakers. A key component of House Bill 499 is program reporting from the Cabinet for Health and Family Services. The Cabinet is required by statute to report key information on the program twice per year. In addition, an implementation report from the Cabinet is due in early March 2023.

The Chamber strongly encourages lawmakers to leverage the information in these reports to work collaboratively with employers and the Cabinet to improve the program and make it a national model for increasing private-sector engagement in workforce and child care solutions. Several states are watching House Bill 499 closely, and there are comparable programs emerging in Wisconsin and Michigan that could serve as peer states from which to learn.

To assist with the rollout of this program, the Chamber is in the process of preparing a range of resources and outreach materials to raise awareness of the new program among employers and help employers gauge the need for this benefit within their workforces.

2. Stabilize the Child Care Assistance Program (CCAP)

The [Child Care Assistance Program](#), or CCAP, is the state's child care subsidy program for low-income working families. Because work is a key requirement of CCAP (with some exceptions), the program has the natural effect of increasing workforce participation for individuals or families who might otherwise not work.

The Chamber is supportive of increased state and federal investment in CCAP to:

- ensure eligibility thresholds fully capture all low-income working families who would otherwise be unable to afford child care without assistance;
- permanently and fully eliminate the benefits cliff effect by allowing workers who have exceeded eligibility thresholds at recertification to experience gradually reduced benefits, instead of a complete loss of benefits, or by allowing these workers an extended grace period for exiting the program and losing benefits;
- and increase provider reimbursement rates to make the program more manageable, appealing, and fair for all child care providers.

[Analysis](#) of child care subsidy programs like CCAP have shown them to have positive impacts on workforce participation, especially for low-income mothers. Kentucky has been able to temporarily expand the reach and impact of CCAP through federal relief funds. These funds, however, are set to expire in 2023, which will require action by the General Assembly to stabilize this key child care and workforce program in the Commonwealth.

3. Study Local Zoning Ordinances to Increase Child Care Availability

In many parts of the state, licensed child care cannot be operated just anywhere. Often, there are rules and regulations within local zoning ordinances dictating where child care services are and are not allowed to be offered. There are frequently important safety reasons underpinning these rules and guidelines. In some instances, however, a zoning ordinance could be overly restrictive and result in limiting the availability of child care in underserved areas without a valid safety reason. [Metro Louisville](#) recently conducted a comprehensive examination of how its planning code affects the availability of child care. This resulted in several important reforms to increase the flexibility of where child care services may be offered while still ensuring the safety of children.

Studying the intersection of local zoning ordinances and the availability of child care could be important to encourage more employers to offer on-site child care or to encourage more providers to offer services closer to where workers live or areas of employment – such as industrial development parks and commercial districts. This is something that local governments with planning agencies and zoning ordinances should give consideration to, and the state should consider ways to support this work by providing technical assistance or assisting local governments with related funding needs.

4. The Employer-Provided Child Care Tax Credit (The Child Care Facilities Tax Credit)

One of the key federal tax credit programs for employer-based child care is the Employer-Provided Child Care Tax Credit, also known as the Child Care Facilities Tax Credit. Through this program, a federal taxpayer may claim a credit against federal income taxes for up to 25 percent of expenditures associated with providing a qualified child care facility or contracting with a qualified child care facility. The program also offers a 10 percent credit for expenditures associated with contracting for child care resource and referral agencies. Total credits are limited to \$150,000 per tax year.



Source: GAO analysis of 26 U.S.C. § 45F and NTL studio/olgache/stock.adobe.com. | GAO-22-105264

This has historically been an underutilized tax credit due to a variety of reasons related to the perceived need of child care services by employers as well as structural limitations within the program itself. A study from the [United States Government Accountability Office](#) (GAO) found that many employers have been simply unaware of the credit. There have been calls for reforming the tax credit to make it more appealing to employers and increase flexibility. According to the GAO report from February 2022, “In 2016, the most recent complete year available, the Internal Revenue Service estimated 169 to 278 corporate income tax returns claimed an aggregate estimated \$15.7 to \$18.8 million in Employer-Provided Child Care credits.”

Roughly [20 states](#) have implemented state-level equivalents to this federal program, where they adopt the same rules and guidelines as the federal law to allow for a credit against state individual income or corporate income taxes. Kentucky currently taxes individual and corporate income at 5 percent, though the individual income tax rate is anticipated to drop to 4.5 percent in January 2023 due to passage of House Bill 8. Kentucky’s tax code already conforms with one important child care related tax provision – the [dependent care assistance](#) exclusion – but Kentucky does not conform to or allow for a state-level equivalent to this credit. As the state explores ways to incentivize increased private-sector engagement in child care solutions for working families, this credit program – and a possible state-level equivalent – should be part of the conversation.

5. Ensure the Success of the Business Partnerships Grants Program

The Cabinet for Health and Family Services recently launched a series of grant programs to help expand the availability of child care. One of these programs is the Business Partnership Grant, which provides up to \$100,000 in matching funds for businesses to start employer-based child care services for employees. This is important because these types of employer-provided services are very expensive and often cost-prohibitive for most businesses.

As with House Bill 499, this program and its structure should be closely studied and evaluated for its effectiveness. If warranted and proven to be effective, it should be expanded and potentially made permanent by the General Assembly.

6. Fund the Early Childhood Development Scholarship

The workforce challenges within the child care sector itself impose major limits on the availability and capacity of child care services throughout the state. These challenges will require a multitude of solutions, but one should include defraying the costs of obtaining the necessary education and credentials to be a high-quality child-care teacher. A key way to do this is through funding and promoting the [Early Childhood Development Scholarship](#), which is administered through KHEAA.

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Lawmakers allocated \$8 million in fiscal years 2023 and 2024. As with other programs discussed here, this program should be studied and expanded, if warranted. In addition, the Chamber encourages the deployment of strategies and resources, including Family and Consumer Sciences Education programs, to encourage secondary and post-secondary students in Kentucky to explore early childhood development as a future career path.