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Incentivizing Employer-Supported Child Care in Massachusetts

Introduction

As states across the country, including Massachusetts, are facing workforce shortages, employers are struggling to hire the talent they need to succeed and remain competitive in the marketplace. While there are many reasons behind the shortages, a lack of affordable and accessible child care is a well-documented contributor. Parents are finding it increasingly difficult to remain in or re-enter the workforce as child care costs reach new highs and supply continues to lag behind demand. These child care challenges overwhelmingly impact mothers. In 2022, the labor force participation rate for mothers was 72.9%; for fathers it was 92.9%. Supporting families, and especially mothers, by better meeting their child care needs is one way to help maximize Massachusetts' workforce population and ensure that the state continues to be a place where people want to live and work. As Beacon Hill looks to reform the child care system, providing tools for employers and employees to reduce child care costs and expand access is critical.

In Massachusetts, employers are increasingly recognizing child care, or a lack thereof, as an economic competitiveness issue and are considering the ways in which they can help. According to the 2021 Future of Work report commissioned by the Baker administration, 39% of employers surveyed said they are offering or are considering offering child care support, a 17-percentage point increase since prior to the pandemic. The child care solutions that employers can provide to better retain and attract talent are numerous but must be carefully considered in order to effectively make a difference. There is no "one size fits all" for employers as their capabilities differ and their employees have a variety of different needs and preferences that may change based on their socioeconomic status, geographic location, children's ages, family size, and more. As the legislature looks to engage the employer community on this issue, an analysis of the potential policies available, how they do or do not work, and considerations for moving forward is essential.

This report provides an overview of employer-supported child care benefits for employers in Massachusetts to consider by outlining common child care benefits and highlighting innovative examples and lessons learned from other states. The paper begins by providing an update on legislation introduced in Massachusetts related to employer-provided child care and a brief overview of a federal tax incentive designed to promote employer-provided child care services. The following sections are dedicated to showcasing common child care benefits that employers could, and often do, provide to their employees. The last section of this paper highlights the ways in which other states are engaging the employer community to create child care solutions for working families and considerations for Massachusetts moving forward.

Legislative Update on Employer-Provided Child Care

It's been a busy few years for early education and care in Massachusetts. In addition to program stabilization and system reforms, Beacon Hill has also looked at the role of businesses in child care policy. While no formal program currently exists, policymakers have begun to consider the ways in which they could engage employers.

In 2020, in the midst of the pandemic, the Legislature established a special legislative commission, the Early Education and Care Economic Review Commission. The goal of the Commission was to review the child care system, identify challenges and gaps, and make recommendations for improvement. After months of hearings, the Commission released a report with 14 recommendations. One of those recommendations was to partner with the business community to identify best practices and explore incentives to further support employer-provided child care benefits for employees. Shortly thereafter, the Joint Committee on Education advanced an early education bill that provided a framework for large-scale policy change. A component of that bill was a section that included the recommendation from the Economic Review Commission around employer-supported care. The bill ultimately passed the Senate but was not taken up by the House before the end of session.

This session, employer-supported care continues to be a focus on Beacon Hill. Representative Peisch, the House Assistant Majority Leader and former co-chair of the Joint Committee on Education, introduced a bill to encourage employer-supported child care. Similar to last session, the bill creates a commission to explore child care benefits provided by employers. However, it also amends the Early Education and Care Private-Public Partnership Trust Fund so that its resources could be used to help employers offer or expand child care benefits to their employees.

Current Federal Programs: Employer-Provided Child Care Credit

Currently, there is only one federal tax incentive designed to encourage employers to provide their employees with child care support. Created in 2001 and made permanent in 2012, the Employer-Provided Child Care Credit is intended to incentivize employers to provide their employees with child care services by offsetting their federal income tax liability. However, low credit amounts, limited eligibility, and lack of awareness about the credit constrain its use.

Overview

The credit works by allowing employers to reduce their overall tax burden by deducting eligible child care-related expenses. There are three different types of eligible expenses, with the credit rate varying depending on the expense (see Table 1). Employers can deduct up to 25% of the expenses related to acquiring, constructing, rehabilitating or expanding a child care facility or contracting with a qualified child care facility to provide care for their employees. A smaller 10% credit exists for employers who provide resource and referral services. However, the credit amount is capped at $150,000, meaning that employers receive no tax benefit for expenses incurred in excess of $430,000.

Table 1: Overview of the Employer-Provided Child Care Credit

Eligible Expense	Credit Rate	Max. Credit Amount
Acquiring, constructing, rehabilitating or expanding property to provide a child care facility for employees, in addition to operating expenses	Up to 25%	$150,000
Contracting with a qualified child care facility to provide child care for employees	Up to 25%	$150,000
Contracting for child care resource and referral services for employees	Up to 10%	$150,000

Issues Impacting the Credit's Effectiveness

Take-up rates for the credit remain extremely low. Based on 2016 IRS estimates, 169 to 278 employers claimed between $15.7 million and $18.8 million in eligible child care costs. At most, this represents .04% of all general business tax credits claimed for that year. Data also shows that usage is mostly segregated to three industry sectors: manufacturing, finance and insurance, and information accounted for roughly half of the total amount of the credits claimed in 2013, the most recent year data is available. According to a report by the Government Accountability Office (GAO), there are a few reasons why the credit is not more widely used:

- Employers are not aware of the credit or the ways in which it could be applied;

- The credit limit is too low;
- Claiming the credit for providing a child care facility requires significant up-front and long-term costs;
- Employers may not feel they have the expertise to plan and operate an on-site child care center;
- Small employers have issues accessing the larger credit likely due to a lack of space or capital; and
- Employers with no federal tax liability or limited federal tax liability are not eligible (e.g. non-profits).

Issues with the Credit Impacting Employees

The current design of the Employer-Provided Child Care Credit provides tax benefits for employers, but can also create complications for employees, especially low-income families who benefit from federal tax credits like the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), and the Child Care and Dependent Tax Credit (CDCTC).

Dependent care assistance is when an employer pays for or provides child care services to their employees. Dependent care assistance is considered a fringe benefit which means it's typically taxable, unless given an exemption. When an employer claims the Employer-Provided Child Care Credit for expenses related to tuition discounts it is considered dependent care assistance. Employees benefiting from this assistance can exclude up to $5,000 from their gross income but must report any tuition reduction in excess of $5,000 as taxable income. This could affect the employees' eligibility for the CTC and the EITC by putting their incomes above the eligible threshold.

Lastly, employer-provided dependent care assistance also negatively impacts tax relief associated with the CDCTC. Parents receiving dependent care assistance can exclude $5,000 from their taxable income and also claim the CDCTC, but not for the same out-of-pocket expenses. Employees must reduce their maximum allowable expenses for the CDCTC dollar-for-dollar with the employer contributions. For example, a family with one child that claims $5,000 in dependent care assistance through their employer would not be able to claim child care expenses for the CDCTC; a family with two children could claim $1,000 worth of child care expenses ($6,000 CDCTC cap minus $5,000 in employer-related child care expenditures).

Proposals to Reform the Credit

The GAO has put forth several recommendations for how the credit could be improved in order to spur better take up rates.

GAO Recommendations

- Improve outreach and education on the credit;
- Extend the credit for employers that do not have federal tax liability;
- Raise the maximum allowable credit;
- Raise the portion of an employer's child care expenditures that can be offset by the credit; and
- Allow small businesses who join a consortium to jointly provide a child care facility to claim the credit.

The purpose of the Employer-Provided Child Care Credit is to incentivize businesses to provide child care to their employees, but it has struggled to make an effective impact due to low awareness and a variety of issues related to its design. Addressing some of these issues could spur the creation of more child care supply, but movement at the federal level seems unlikely. Luckily, there are many employers who already offer these benefits, providing inspiration to policymakers and other businesses as to the types of solutions available.

What Child Care Benefits Could Employers Provide?

Overview

A lack of access to child care not only impacts a parent's ability to engage in the workforce, but also a business's bottom line. Previous research conducted by MTF found that employers lose $812 million a year due to child care-related turnover costs and diminished productivity. Many businesses have taken it upon themselves to offer benefits that would attract and retain working parents. These child care benefits come in a variety of forms as there is not one perfect solution, but rather a range of solutions that employers could choose from based on a variety of considerations, including employee needs (see Table 2). For instance, providing subsidized child care could be appropriate for small businesses with a high percentage of remote workers, while on-site care might be best for large employers within child care deserts. In this section we provide an overview of some of the most common child care benefits available to employers, who they tend to serve, and considerations for businesses in Massachusetts.

Table 2: Common Employer Child Care Benefits

Benefit	Description
On-Site Child Care	Child care that the employer provides at their office location(s).
Subsidies with a Local Provider	Subsidized child care that the employer provides with an existing local child care provider.
Back Up Care	At home or center-based child care if regular child care coverage fails.
Flexible Spending Account (FSA)	A pre-tax, flexible spending account for child care expenses.
Resource and Referral Services	Services that help families find and get connected to child care.

On-Site Child Care Assistance

Overview

On-site child care is when an employer operates a child care center at their office location(s). In some cases, businesses that provide on-site child care establish and operate their own child care center, but they can also partner with existing child care providers to run the on-site center. In addition, multiple employers can form a consortium to share the facility's financial obligations and offer it to each of the businesses' employees. Employers need to adhere to state regulations but can design their on-site child care facilities to meet the unique needs and preferences of the business and its employees.

As parents continue to struggle to find affordable and stable child care options, and workforce shortages continue to hinder corporate revenues, offering on-site child care can be an effective tool to attract and retain talent. According to the Society for Human Resource Management, employers with on-site child care have experienced decreases in absentee rates and increases in productivity.[1] One company, Patagonia, offers subsidized on-site child care and found that turnover for parents who have children in their on-site program is about 25% less than in their overall employee population.[2]

Data on On-Site Care

The Best Place for Working Parents National Trends Report found that on-site child care is not at all common, with only 10% of organizations surveyed offering the benefit.[3,4] In addition, that same report

[1] Society for Human Resource Management. https://shrm.org/ResourcesAndTools/tools-and-samples/toolkits/Pages/managingworklifefitdependentcare.aspx.

[2] Anders, Bruce. Why Patagonia CHRO Dean Carter Sees Onsite Child Care as a Bedrock Benefit. September 2019. https://www.linkedin.com/business/talent/blog/talent-engagement/why-patagonia-offers-onsite-child-care

[3] Best Place for Working Parents. National Trends Report. 2022. https://bestplace4workingparents.com/wp-content/uploads/2022/12/national-trends-report-2022-digital-12_15-sm.pdf.

[4] The employers surveyed were a part of the Best Place for Working Parents network and therefore were more likely to provide child care benefits.

found that large corporations tend to offer on-site child care more than any other sized business.[5] Building and providing on-site child care requires substantial resources outside of just capital, making it challenging for smaller employers to provide.

Considerations

Providing on-site child care is clearly an effective human resource tool for businesses who are struggling with high turnover and worker shortages. However, on-site child care is costly, requires a large physical footprint, and an understanding of the child care business model (regulations, licensing, staffing requirements, etc.). For larger businesses with significant resources and a substantial workforce, this could be a worthwhile benefit. However, the challenges associated with providing on-site child care may put this option out of reach for many employers. Ultimately, businesses need to first understand their financial considerations and their employee's needs and preferences before making a commitment to provide on-site child care.

MA Employer Spotlight: On-site Child Care at Boston Children's Hospital

Who Do They Serve?

- Boston Children's serves 180 children across two child care centers in Brookline and Newton, with plans to open a third that will serve an additional 90 children.
- Employees who earn under $115,000 are eligible for on-site child care.

How Does it Work?

- Boston Children's provides 6 levels of subsidies depending on the income of the employee and the age of the child. The maximum subsidy amount is $989 a month.
- Educators who work at the center and have children get a 50% discount on top of the subsidy.
- First come first serve waitlist system has approximately 350 children on it.

What Other Benefits Do They Provide?

- 30 days of back-up care a year.
- Flexible spending accounts (FSA).
- Children of employees under the age of 7 in any licensed care get a $200 per month subsidy.

Off-Site Child Care Assistance

Overview

Child Care Aware of America estimates that private infant care for one child in Massachusetts would take up 16.4% of a median family's income.[6] The child care subsidy system in Massachusetts serves only the most vulnerable families in the state, leaving many low- to moderate-income families without the support they need to afford child care and engage in the workforce. To help parents access and afford child care, employers can reserve slots at existing providers, subsidize the cost of their employee's child care tuition, or both. Employers that reserve slots for their employees do so by forming relationships with local licensed providers. This can help provide easier access to child care for employees, but also provides financial stability to the child care program by having a consistent revenue source. Employers who want to subsidize the cost of their employees' child care can do so in whatever way makes most sense to them. Seamen's Bank, located in Massachusetts, subsidizes 65% of their employees' child care costs by paying the provider in-full, and then deducting the employees' share from their paycheck.

[5] The Best Place for Working Parents National Trends Report defines larger corporations as businesses with at least 1,000 employees.

[6] Child Care Aware of Massachusetts. Price of Child Care in Massachusetts. 2019.

Data on Off-Site Child Care
Thorough data on employer-supported off-site child care is sparse. However, a survey by McKinsey found that about 4% of employers nationwide reportedly offer subsidized child care as an employee benefit.[7]

Considerations
Although easier and potentially less costly than providing on-site child care, reserving and subsidizing child care slots still requires administrative resources to establish relationships with providers and manage payments and payroll deductions. Although this process might be more manageable for smaller businesses given they have fewer employees who may need to utilize the benefit, challenges with administration might arise if they don't have human resource capabilities. For larger businesses with more resources, administering the program may be easier, though understanding employee needs among hundreds, potentially thousands, would require extra thought and consideration.

MA Employer Spotlight: Subsidized Child Care at Seamen's Bank

Who Do They Serve?

- Employees who work at Seamen's bank, regardless of their income.
- Given the bank's smaller size (~70 employees), they subsidize child care for roughly 5 children a year, on average.

How Does It Work?

- Seamen's subsidizes 65% of the tuition rate for its employees child care.
- Seamen's pays the provider the total cost and the remaining 35% is deducted from the employee's paycheck.
- Employees can utilize the benefit at any licensed provider of their choosing.
- Seamen's has a formal partnership with the Cape Cod Children's place, giving employees priority at that provider.

Back-Up Child Care
Overview
When primary care options fall through, many parents have to scramble to find alternative care, modify their schedules, or take time off altogether. This is bad for business but can also have an impact on the long-term careers and financial potential of parents, especially mothers who tend to bear the largest responsibility for caregiving. The adverse impact of child care-related absences is largest among those who can least afford it: lower-wage, hourly, and disproportionately, workers of color, who lose out on income when they miss days of work. Employer-provided back-up care supports families by providing emergency child care, if regular child care plans fall through. Back-up care has been proven to be effective: according to Care.com clients, businesses reported that 90% of the back-up care days used in the past 12 months prevented employees from missing a day of work.[8]

Although some employers provide employees with their own back-up child care center, often employers partner with other organizations for back-up care services. For instance, Bright Horizons, KinderCare, and

[7] "Unequal America: Ten Insights on the State of Economic Opportunity." *McKinsey & Company*, McKinsey & Company, 5 Sept. 2022, https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/unequal-america-ten-insights-on-the-state-of-economic-opportunity.

[8] Hosley, Rebecca. "What to Look for in a Back Up Care Program." May 31, 2022.

Care.com all have back-up care services that they offer to businesses. The back-up care benefit can be tailored to an individual business's needs including ages of the children eligible, the number of days provided, and whether or not it will be subsidized. The benefit can also include center-based and/or in-home child care.

Data on Back-Up Care

Much like previous benefits outlined in this report, back-up care is not widely offered. According to the McKinsey survey referenced earlier, 8% of working parents with children aged five and under said their employer offered back-up child care.[9] As is the case for many other child care benefits, employers that do offer back-up child care tend to be larger sized businesses: roughly 38% of large organizations offered back-up care compared to 11.4% of small organizations.[10,11]

MA Employer Spotlight: Back-Up Care at Baystate Health

Who Do They Serve?

- Employees who work at Baystate Health, regardless of their income.

How Does It Work?

- Baystate Health has a partnership with Square One Early Education and Care in Springfield to provide back-up child care services to their employees, if seats are available.
- Currently families utilizing these services pay the private pay rate. Baystate Health is considering subsidizing the rate for employees who earn within a certain pay range.
- During the pandemic, Square One consistently served anywhere from 5 to 10 families utilizing back-up care.

Considerations

A sick child or family emergency shouldn't impact a parent's ability to fully engage in the workforce. In order to have an effective back-up care benefit, employers must consider the cost of the benefit to families and the availability of the providers they are contracting with. If employees cannot afford the back-up care option or easily access an available seat, the benefit will likely go underutilized. It is critical that employers have a thorough understanding of their employees' needs and their ability to provide affordable and accessible back-up care before implementing the benefit.

Flexible Spending Accounts

Overview

In order to help plan for child care costs, some employers offer a flexible spending account (FSA) as a form of dependent care assistance. Similar to Health Savings Accounts (HSAs), employees contribute to their FSA via a pre-tax payroll deduction which also reduces their overall tax burden. In addition to employee contributions, employers also have the option of contributing. IRS rules stipulate that contributions to FSAs be maxed out at $5,000 a year for single or joint filers and $2,500 for married couples filing separately. While this number is greater than limitations on HSAs, it's important to note that HSAs are designed to be

[9] https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/future-of-america/the-childcare-conundrum-how-can-companies-ease-working-parents-return-to-the-office

[10] Best Place for Working Parents. *National Trends Report*. 2022. https://bestplace4workingparents.com/wp-content/uploads/2022/12/national-trends-report-2022-digital-12_15-sm.pdf.

[11] The employers surveyed were a part of the Best Place for Working Parents network and therefore were more likely to provide child care benefits.

a supplement to formal health care benefits which employees contribute to monthly. The same is not true for child care benefits.

Employees can use these funds to pay for child care services, such as day care, preschool, summer camps, and before and after school programs. The employee then gets reimbursed by the FSA account for any relevant eligible expenses. Contributions made to the FSA cannot be returned to cash and any funds not used within the specified time frame are lost.

Data on FSAs

Data from the Bureau of Labor Statistics reveals important trends on the types of workers that have access to dependent care FSAs. Similar to previous benefits outlined in this report, the data indicates that dependent care FSAs are being offered by larger businesses with higher-wage workers:

- 13% of employees in the lowest 10% of average wages have access to dependent care FSAs.
- 68% of people in the highest 10% of average wages have access to dependent care FSAs.
- 71% of workers have access to dependent care FSAs at large companies (500 workers or more) compared to just 21% at small employers (less than 50 workers).

In addition, those who do have access might not actually be utilizing the benefit. In 2017, 153 million returns were filed and only 6.5 million included those who utilize a dependent care FSA.[12]

Considerations

Providing an FSA is a low-cost option for employers, but requires human resource and tax expertise, and potentially third-party administration, making the benefit potentially out of reach for small businesses. While employers that provide dependent care FSAs do so to help families lower their tax burden and plan for child care expenses, design limitations minimize their impact.

Infant care costs roughly $21,000 a year in Massachusetts, on average, far from the $5,000 annual maximum contribution for single or joint filers. In addition, unlike with health care FSAs where an employer contribution increases the cap, an employer contribution to a dependent care FSA is counted towards the cap, further limiting its impact. This, paired with the fact that employees need to submit reimbursement for child care expenses as opposed to being able to spend directly from the account, might be creating unnecessary barriers.

Resource and Referral Services

Overview

Finding child care options that meet a family's needs and preferences can be an onerous and time-consuming process, especially given the supply constraints and high costs that plague the system. In order to help employees locate child care services, employers can contract with organizations who specialize in connecting families to care. Child Care Resource and Referral agencies (CCRRs) are local organizations that often provide these services, but larger businesses like Care.com, KinderCare, and BrightHorizons also offer resource and referral services to employers.

The level of services provided can vary: some resource and referral benefits offer a free service for employees to search for child care options, while others offer a high touch service that supports the employee through the search and enrollment process. Both options can make finding child care easier and less time consuming, allowing employees to focus more of their energy towards work. As outlined above, businesses that provide these services are eligible for a 10% federal income tax credit for the associated expenses up to $150,000.

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[12] Congressional Research Service. Child and Dependent Care Tax Benefits: How They Work and Who Receives Them. February 1, 2021.

Data on Resource and Referral Services
Data on how many employees have access to these services is limited. However, the IRS estimates that in 2018, 28 corporate income tax returns reported an estimated $6.6 million in resource and referral expenditures through the employer provided child care credit.[13] According to the Government Accountability Office, lack of awareness about this portion of the credit is likely a reason for low take-up rates, especially among smaller businesses who may not have the administrative resources (HR or tax experts) to learn about the credit.

Considerations
The child care system is not always easy to navigate and resource and referral services are an important component of getting parents access to care that meets their needs and preferences. It is also one of the more affordable child care benefits that employers can provide with limited coordination required. However, although finding child care is a challenge, the greatest needs are around the cost of care and the limited supply of seats. If employers want to use child care benefits as a means to attract and retain workers, child care resource and referral services may want to be considered along with other benefits that address affordability and the lack of available slots.

Summary
While many employers have taken it upon themselves to offer child care benefits for their employees, the availability and usage of these benefits is limited. In addition to being costly, employers may not have the expertise or awareness needed to provide thoughtful and impactful child care benefits. To boost employer participation in addressing child care challenges faced by working families, policymakers and employers in states across the U.S. will need to come together to design creative solutions that reduce barriers for businesses to provide child care benefits.

How are States Engaging Employers to Provide Child Care Benefits?

Overview
While many employers have realized the immense benefit of providing child care supports to their employees, it is important to note that the employers that do are typically large businesses with significant capital and resources. Thinking through how to further incentivize employer-provided child care while making sure to support small businesses in providing these supports should be a focus for policymakers, state governments, and advocates. Thankfully, Massachusetts can look to state governments across the U.S. who are seeking out new and innovative ways to partner with employers of all sizes to expand child care access for working families, making it easier for them to enter and remain in the workforce. State tax credits, grant programs, and public-private cost sharing models are more frequently being used as a way to incentivize the business community to provide a range of child care benefits. This section will provide an overview of those three different methods on state-employer engagement before diving into specific examples from states across the U.S.

Cost-Sharing
A cost sharing model is a new and innovative public-private partnership, where the cost of care for employees is split between the state, employers, and employees. However, some cost sharing models only include a partnership between the state and employers. The goal is to help make child care more affordable and accessible in order to address workforce shortages and promote economic opportunity. Our research found that there are two states – Michigan and Kentucky - with fully-formed cost sharing models. However, New York recently announced they will be establishing a cost sharing program as well.

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[13] Government Accountability Office. Employer-provided Child Care Credit: Estimated Claims and Factors Limiting Wider Use. February 2022.

Grants

Grant programs are designed to incentivize employers to provide child care benefits by matching or subsidizing their investment with state dollars. Unlike cost-sharing, grant programs can be more straightforward and often easier to administer as they tend to be one-time, requiring less consistent coordination. The design of grant programs can vary greatly depending on the priorities of the state. However, their structure is generally the same – eligible businesses apply, and the state awards grants based on that employer meeting a set of criteria for assisting with an employee's child care needs. For example, grant funds can go towards building or renovating child care facilities, covering an employee's child care expenses, and/or purchasing child care slots at partner providers, to name a few.

Tax Incentives

Tax incentives are one of the most widely used tools by states to incentivize employers to provide child care assistance, though their effectiveness has been mostly unproven. State tax credits can vary from providing a credit for establishing an on-site child care center to any contribution made to an employee's child care costs. Historically, tax credits for child care were designed to incentivize establishing or operating an on-site child care facility. However, more recently, some states have made attempts to create flexible credits with more eligible expenses.

Innovative State Examples from Across the U.S.

Overview

The last section of this paper is focused on states that are creating public-private partnerships in order to incentivize employers to provide child care support to working parents. Although not exhaustive, we highlight five states - Michigan, Kentucky, Iowa, Colorado, and Kansas – that are all implementing programs to engage the employer community in child care policy. Some of the initiatives are new and innovative, offering Massachusetts a variety of opportunities to consider, while others are updates to existing initiatives, most notably tax credits, which provide Massachusetts with important lessons to learn.

Michigan: Cost-Sharing

What Michigan is Doing

In 2021, Governor Gretchen Whitmer announced a public-private partnership that would split the cost of an employee's child care costs between the state, the employer, and families (MI Tri-Share Program). The state budgeted $2.5 million for the program, which came from federal relief funds through the American Rescue Plan Act (ARPA). The program has a decentralized operating model where regional facilitator hubs, often local area non-profits, act as program administrators for their geographic area. Although the state sets the general parameters for the program, facilitator hubs have control over how they organize and run their local tri-share programs, meaning regional differences abound. The program began with three hubs serving nine counties but is now serving 59 counties across 13 facilitator hubs. The program supports full or part-time child-care services in addition to before and after school care programs.

The program has few eligibility requirements for employers and families:

- Employers must have their corporate office located within the jurisdiction of a current facilitator hub;
- Families must have income between 200%-325% of the Federal Poverty Level (FPL) and not otherwise be eligible for the state's subsidy program; and
- Families must have children between the ages of 6 months and 11 years old.

The Michigan Women's Commission oversees the program and operates as the fiduciary, distributing state funds equally across the facilitator hubs. Facilitator hubs are responsible for on-boarding employers, determining employee eligibility, and processing the payments made to the child care providers. The latest program update from October 2022 shows that 223 children are receiving subsidized care through the program, which represents 175 employees across 102 employers.[14] The program has expanded greatly in its initial year, indicating increased interest as awareness has grown. However, it is important to note that a majority of these children do not represent an expansion of the system as many of the families being served already had their child enrolled in a child care program.

Considerations for Massachusetts

- **Balancing the Benefits of a Decentralized Model.** While the state sets the general parameters for the program, facilitator hubs are given flexibility to manage their regions how they see fit. This has led to varying processes across the regions. While it is helpful to allow each facilitator hub to design their own procedures, structure within a pilot program is also crucial, especially when there are limited resources for administrative work. Massachusetts would need to consider how to best provide structure to regional efforts while also allowing them to meet the needs of the specific population they are serving.
- **Determining Eligibility Criteria.** The Michigan Tri-Share program specifically targets populations not currently served by their subsidy program. Given the program focuses on providing affordable child care this design makes sense, as middle-income families not eligible for subsidies also struggle to pay for child care. However, the narrow eligibility window of this program can make it difficult for employers to find and identify eligible employees. If Massachusetts were to adopt a similar tri-share model, ample consideration would need to be given to aligning enrollment goals with program eligibility.
- **Funding for Administrative Responsibilities.** In the Michigan Tri-Share program only $36,000 of a facilitator hub's $300K budget (12%) can go towards administration and personnel costs. A program of this magnitude requires a lot of coordination and day-to-day management that can be difficult with limited resources. Additional funds to support administrative activities could be one way to broaden the program's reach and serve more families. Massachusetts would need to consider the right funding levels to help subsidize the cost of care, but also support the resources needed for efficient program administration.
- **Distributing Funding for Facilitator Hubs.** The program evenly divides funding amongst each facilitator hub instead of prioritizing areas where child care costs are above the state average or where there is a below average number of slots. Another method could be to target child care deserts or higher cost areas by providing those facilitator hubs with a higher portion of the overall budget.

What's Coming: New York's Cost-Sharing Pilot

Governor Kathy Hochul recently announced the New York State Employer-Supported Child Care Pilot Program (ESCC) which splits the cost of child care between eligible employees, the state, and employers. While the total public funding for the ESCC program is unclear, policymakers are closely watching Michigan's tri-share program as a potential model to emulate.

Limited details are available, but certain eligibility requirements for families have been announced:

- Families must earn between 85% and 100% of state median income.
- Families must not be eligible for the state's child care assistance program.

[14] Michigan Women's Commission. Status Report: MI Tri-Share Child Care Program. October 2022.

Kentucky: Cost-Sharing

What Kentucky is Doing

Governor Andy Beshear signed legislation that created the Kentucky Child Care Assistance Partnership. The partnership will allow the state to match contributions that employers make toward their employees' child care costs. The state assembly appropriated $15 million for the program and set aside 25% of the funds for employers with fewer than 50 full-time employees. The program is considered a pilot and the state will begin accepting applications in April 2023. As of right now the funds will only be available between July 1, 2023 and June 30, 2024. If the program is to continue beyond that date, additional funding from the state legislature will be needed.

Eligibility for employers is quite simple: they must be a private for-profit or non-profit Kentucky-based business. On the employee side, the state has extensive eligibility requirements based on criteria including their employment status, the hours they work, the age of their children, their participation in other welfare programs, and more.[15] The amount of the state match is determined based on the employee's household income (see Table 3).[16] Eligible employers and employees will then enter into individual agreements with child care providers which must be approved by the Cabinet for Health and Family Services.

Table 3: Child Care Assistance State Match Criteria

Household Income as a % of State Median Income	State Match Percentage
Equal to or less than 100%	100%
Above 100% through 120%	90%
Above 120% through 140%	80%
Above 140% through 160%	70%
Above 160% through 180%	60%
Above 180%	50%

Considerations for Massachusetts

- **Targeting Small Businesses.** Small businesses tend to have less resources to contribute to their employee's child care needs. This could weaken their ability to attract workers over larger businesses who are more likely to offer child care assistance benefits. Reserving 25% of the funds for small businesses could incentivize their participation and create a positive impact on the employer's ability to attract and retain talent. If the program was emulated in Massachusetts, similar consideration should be given to how to engage small businesses in the program.
- **Keeping Eligibility Simple.** While program integrity is important, the extensive eligibility criteria may create an administration-heavy program that is difficult for families to access. This is especially concerning given the short timeline for the program. Massachusetts would want to consider how to create a streamlined program that is easy to access and administer while ensuring it meets its goals in terms of the population served.
- **Funding for Program Sustainability.** The uncertainty around the program's future may provide a disincentive for working parents to apply. In addition, while it would be at least temporarily helpful to working parents struggling to pay for child care, it would likely not provide a long-term incentive for parents to enter the workforce. Policymakers should consider program sustainability to maximize the investment's impact over time.

[15] HB 499: An Act Relating to Employee Child-Care Assistance and Declaring an Emergency. https://apps.legislature.ky.gov/law/acts/22RS/documents/0184.pdf

Iowa: Incentive Grants

What Iowa's Doing

In 2022, Governor Kim Reynolds announced the first round of funding for a new Child Care Business Incentive Grant. The program includes two different grants: 1) a capital infrastructure grant to build or expand upon existing child care facilities and 2) a grant to allow employers to purchase child care slots for their employees at local child care providers. As referenced in an earlier report by MTF, both programs operate as 50/50 cost-sharing models between the employer and the state. In order to be eligible, a business must have at least 75 employees to apply for these grants. However, smaller businesses can also form a consortium in order to meet the employee minimum. Businesses that apply are required to provide a project proposal and a sustainability plan.

Although the Iowa Workforce Development Office is responsible for administering the funding to employers, the Iowa Women's Foundation (IWF) plays a crucial role in terms of providing technical assistance. The IWF works directly with employers to support them in creating and implementing their grant projects.

In 2022, $27 million was awarded through the program across 28 projects and 78 participating employers. The vast majority of the grant funding has been allocated to projects that build or expand child care facilities ($26 million), while a smaller portion has been dedicated to purchasing child care slots ($1 million).[17] It is estimated that these projects combined will add roughly 1,862 seats to Iowa's child care system. So far, participating employers tend to be mid- to large-sized businesses such as hospitals or manufacturing businesses. Employers will have to begin construction projects for on-site child care by June of 2024 and all funding must be spent by June of 2026.

Considerations for Massachusetts

- **Providing Technical Assistance.** Many employers have no experience with providing child care services to their employees. Retaining the Iowa Women's Foundation to provide ongoing support has been key to the program's success due to the Foundation's expertise in the business and child care sectors. If Massachusetts considers a similar model, using budgeted funds to hire an organization to provide technical assistance to grantees will ensure that businesses have all the information and resources they need to create thoughtful and sustainable projects that meet their employee's needs.
- **Setting Application Timelines**. There was a six-week turnaround time between announcement of the grant program and when businesses proposals were accepted. Extending the amount of time employers have to submit applications could increase employer participation rates and also ensure details around implementation and feasibility are carefully considered.
- **Building Up Supply vs. Addressing Affordability.** The current grant program has shown at least initial success in engaging employers to create and provide additional child care supply for their employees. However, the program does not directly address issues of affordability, as there are no stipulations about what employees may pay for care that is provided by their employer. Additional thought should be given to how to design this program to meet both of those goals.
- **Targeting Construction in High Needs Communities.** The application for the business incentive grant for constructing child care facilities prioritizes projects in child care deserts while the grant for child care slots prioritizes projects that support historically underserved populations including infants, toddlers, families with non-traditional work hours, rural communities, dual language learners, and children with disabilities. Targeting investments into communities most in need of

[17] Future Ready Iowa. Child Care Business Incentive Infrastructure and Slot Awards. 2022. https://www.futurereadyiowa.gov/sites/fri/files/basic_page_files/2022%20Child%20Care%20Business%20Incentive%20Award%20Summaries%20%28rev.%201.5.23%29.pdf

child care services should be a consideration for Massachusetts if a similar program is explored by policymakers.

Colorado: Tax Credits

What Colorado is Doing

In 1998, the Colorado Legislature passed a law to expand an existing tax credit and convert it into the Child Care Contribution Tax Credit (CCTC). The credit allows individuals and businesses to claim a 50% state income tax credit for contributions that promote child care in the state. The maximum credit amount is $100,000. Providers must be licensed by the state in order to be eligible for the program. Donations from organizations must meet the state's definition of "promoting" child care which includes contributions that:

- Create or operate a child care facility or program.
- Support a loan or grant program for parents who need financial assistance for child care.
- Support a training program for child care providers.
- Support programs that help parents find child care information and referral services.

From 2015 to 2018, an average of $28 million was claimed annually.[18] It is estimated that the roughly 18,200 taxpayers who claimed the credit during those years made about $56 million in annual contributions towards child care in Colorado.

A Colorado-based organization called EPIC (Executives Partnering to Invest in Children) put forth a proposal to expand the CCTC to also include "in-kind" contributions so that land and building donations would also be eligible for the credit. The change was enacted in May of 2023. In addition, EPIC also supported recent changes to law that would provide a property tax exemption for properties that are used as child care centers. This will allow individuals or businesses who own property that is leased by a child care center to be eligible for the property tax exemption. The combination of these credits could potentially incentivize the creation of more child care facilities.

Considerations for Massachusetts

- **Targeting Contributions to Priority Areas.** While flexibility in how a tax credit can be claimed is helpful in promoting take-up rates, it also hinders the ability for state governments to incentivize specific policy outcomes that might address the most pressing child care issues. If Massachusetts were to consider a similar tax credit, thought would need to be given to balancing expanding allowable expenses while also ensuring that resources target specific high-need areas.
- **Prioritizing Data Collection**. With such vast options for eligible expenses, ensuring that policymakers can track data on how it's being used, where the funds are going, and whether the credit is increasing investment is crucial. Without it, policymakers won't be able to assess the impact of the contributions on the child care field. If a similar proposal was adopted in Massachusetts, ensuring that the state could gather data to measure the effectiveness of the credit is an important priority.

Kansas: Tax Credits

What Kansas' is Doing

Kansas offers a tax incentive package which allows businesses to receive a state income tax credit for providing child care or helping their employees pay for or get access to their own child care. The Kansas Child Day Care Assistance credit was established in 1993 but was limited to large corporations and financial

[18] https://leg.colorado.gov/sites/default/files/2021_te26_child_care_contribution_credit.pdf

institutions. In 2022, Kansas enacted legislation that expanded the tax credit to include all businesses in the state. The total value of credits that can be claimed is capped at $3 million.

Credit amounts vary based on the child care benefit the employer provides:

- Businesses that pay for child care services or help their employees find child care services:
  - 30% of the total amount spent by an employer to help an employee pay for child care, capped at $30,000.
  - 30% of the total amount spent by the employer to help employees locate child care, capped at $30,000.
- Businesses that establish or operate child care facilities:
  - 30% of total operating costs of an on-site child care facility after the amount of money received to provide child care, capped at $30,000.
  - 50% of the total cost of establishing a child care facility primarily for the use of the business' employees, capped at $45,000.
  - 50% of the total cost of establishing and operating a child care facility in conjunction with other businesses primarily for the use of the businesses' employees, capped at $45,000.

Data from Kansas's tax expenditure budget reveals that no employers claimed the credit in 2020. Data on usage since the expansion are not available.

Considerations for Massachusetts

- **Setting Credit Amounts and Caps.** Expanding the credit to small- and medium-sized businesses might help spur more participation; however, a likely reason that employers have not claimed the credit is due to the extremely low cap on claimed expenses. The cost of providing child care benefits far exceeds the $30,000 to $45,000 cap currently instituted in Kansas. Policymakers need to balance both the revenue implications of these tax credits and ensuring the credits are actually working to create more affordable and accessible child care.

- **Alignment with Federal Programs.** The Child Day Care Assistance credit seems aligned with the federal credit described earlier in this paper. While Kansas' credit may be designed to provide a further tax incentive to participate in that federal program, low awareness associated with both programs may be factors in the ineffectiveness of the credit.

- **Claiming Multiple Credits.** Businesses in Kansas cannot claim more than one of these credits even if they are both providing child care and helping to pay for child care. Given the small credit amounts, allowing businesses to claim multiple types of expenses could help to incentivize more participation.

- **Timing of Tax Credits.** One flaw of utilizing tax credits to incentivize employer-provided child care is that the benefit does not kick in until the end of the tax year, after businesses have already put up substantial resources. This makes tax credits likely less effective in promoting employer-supported care among small businesses, but even larger ones who may have more capital to dedicate to child care supports. States like Massachusetts should consider the cost/benefit of a tax credit as opposed to other incentive programs like grants and cost-sharing models.

Conclusion

The child care subsidy system in Massachusetts only serves a subset of the population in need of accessible, affordable, and high-quality child care. The Department of Early Education and Care serves roughly 53,000 children a month, on average, through its subsidy system. However, there are over 300,000 children under the age of six in Massachusetts with both parents in the workforce. A majority of these families rely on the private market which has limited supply and extraordinarily high costs. Supporting families and providers on the private side of the system is critical to keeping Massachusetts a place where people can live and work; employers can be part of the solution.

As this paper outlines, the options for employers are numerous, but should be thoughtfully considered in order to have the most effective outcome. There is no silver bullet, but different solutions for different employers depending on their resources, capabilities, and workforce needs. While many employers have taken a role in solving the child care crisis, policymakers also have the tools available to further incentivize employer-supported child care. Examples from other states show that with support from policymakers and local government, there is appetite for employer-supported child care programs and benefits. Providing incentives through cost-sharing models, grant programs, and the tax code, are all options worthy of exploration. As Massachusetts gets deeper into the current legislative session with child care as a top priority, policymakers should consider the most effective ways to engage the employer community – incentive programs like the ones highlighted above are a good start.