BOARD/COMMISSION RECOMMENDATION

Early Childhood Council

20240416-004 Endorsement of the Children's Funding Project Workgroup Recommendations

WHEREAS, in the City of Austin, 36% of children under age 6 live in households with low income; and

WHEREAS, 90% of the children in households with low income under age 6 are children of color; and

WHEREAS, decades of research prove that disadvantages begin the moment children come into the world because children born into poverty and children of color are disproportionately born early, at low- birth weight, or with chronic illnesses, and are less likely than their peers to be ready for, or successful at school; and

WHEREAS, Child Care Scholarship programs through Workforce Solutions Capital Area are at capacity, enrollment is closed, no new funding is available at this time, and as of March 2024, the estimated amount of time a family applying for a scholarship at that time will likely remain on a waitlist before they could expect to be outreached for enrollment is 24 months; and

WHEREAS, the Urban Institute completed an analysis and set of recommendations regarding the dire lack of supply of nontraditional hour child care; and

WHEREAS, the City of Austin's recently announced Infrastructure Academy is intended to expand the region's skilled trade sector and access to child care is an obstacle for the existing workforce, including the skilled trades; and

WHEREAS, the Early Childhood Council has been presented a set of recommendations of the Children's Funding Project Workgroup to alleviate low-income quality child care waiting lists; to expand nontraditional hours quality child care supply; to enhance the quality and capacity of family-based child care providers and to provide incentives for businesses to make child care more affordable to their employees,

NOW, THEREFORE, BE IT RESOLVED that the Early Childhood Council recommends that the City of Austin endorse the strategies outlined in the white paper by the Children's Funding Project Workgroup and encourages the City of Austin to pursue all options for implementing the recommendations.

Date of Approval: April 16, 2024

Record of the vote: 7-0 vote (3 recusals from Chair Cathy McHorse, Member Choquette Hamilton, and Member Cynthia McCollum)

Attest: ______________________________

Caitlin Oliver, staff liaison

The Children's Funding Project (CFP) Work Group[1]
White Paper (Version 2)[2]: Strategies for Local Investment in Early Child Care

CONTENTS

I. Overview

This memo summarizes the work done by the Children's Funding Project Work Group over the last 16+ months to understand the state of child care in Austin/Travis County and identify strategies to address quality, accessibility, equity, and sustainability.

Pending polling and further stakeholder input, **the Work Group recommends holding a Tax Rate Election (TRE) in November of 2024, to raise approximately $50 million to fund four major strategies to increase access to affordable, high quality child care for families who live, work, and play in Austin:**

Strategies

1. Subsidize Birth Through Age Three Contracted Slots
2. Expand Nontraditional Hour Care
3. Build Quality and Capacity
4. Create a Business-Government Alliance

Polling and ongoing discussions will determine whether it is a city or county election. We further propose that the measure require reauthorization by the voters after 12

[1] Members include Austin City Council Members Alison Alter, Vanessa Fuentes, Ryan Alter, and José Velásquez and members of their staff; David Smith and Margo Kinneberg (United Way for Greater Austin); Cathy McHorse (Austin Early Childhood Council);Tom Hedrick (Early Matters Greater Austin); and representatives from the Office of Travis County Judge Brown and Travis County Health and Human Services.

[2] This white paper dated 2-9-24 has been revised to include clarification regarding the inclusion of Head Start and Early Head Start in our policy proposal, based on input from Child, Inc. (Albert Black). Previous revisions include input from Workforce Solutions Capital Area (Tamara Atkinson), allocation of contingency to two strategies (NTH and Business Government Partnerships), and the recalculation of census and economic data based on those revisions.

years.

II. The Case for Investment in Child Care

The lack of accessible, affordable child care is a growing crisis at the national, state, and local levels. The case for investment in early child care is compelling from a variety of perspectives:

- **Workforce**: Studies show that seven parents enter the workforce for every 10 new children in child care. In addition, stable and broader child care access reduces worker absenteeism and turnover. In Texas, lack of child care results in $9.39 billion annual economic loss. (US Chamber of Commerce, Ready Nation, American Enterprise Institute, Vanderbilt University)

- **Affordability**: Child care costs are the second or third highest expense for families with children and affordable, high quality options are minimal. Child care is most expensive for infants and toddlers, and neither federal nor state subsidies cover the costs necessary to provide quality. (MIT, Vanderbilt University)

- **Accessibility**: Austin has more than 11 child care deserts, and the needs are greatest in East and Southeast Austin where young families are moving to access more affordable housing. Gaps in available, affordable child care are most acute for children under three years old. Further, the number of Texas Workforce Commission (TWC) subsidized child care seats per 100 children in Travis County trails the Texas average by over 30%. Overall, thousands of low-income families have no access to child care. (Children at Risk)

- **School Readiness**: School readiness in Austin/Travis County is 48% overall, but children in households with low income lag behind at 39%. This statistic is concerning because children who start behind tend to stay behind throughout their education. Access to high quality child care increases school readiness (as tied to 3rd-grade reading) and is a key tool in leveling the educational playing field. (E3 Alliance)

- **Market failure**: The child care sector struggles with high turnover rates and staff and programming cuts as costs rise for providers and families. Families cannot afford higher tuition while providers cannot lower costs more– a classic market failure in need of government support. (University of Texas, Bipartisan Policy Center)

- **Equity**: The child care industry is overwhelmingly female, with a large percentage of women of color, and most employees are not paid a living wage. (National Bureau of Economic Research, Vanderbilt University)

- **Social Returns**: Numerous studies calculate that the social returns of early, high quality child care far outweigh the necessary investment. ROIs range from 2X to 13X. (Foundation for Child Development, National Bureau of Economic Research, CFP Work Group backup)

Many of these challenges were quantified in a 2023 report by TXP Inc., a local economic analysis and public policy consulting firm, that was commissioned by the City of Austin. TXP's report summarized the need for investment well:

> *"The business model for child care, which is a market-based system, is broken. Most child care centers are 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 child care is higher than market prices – especially for infants and toddlers. The result is that 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 child care for infants and toddlers at a price that families can afford or are willing to pay****."*

-" Child care and Economic Development"
Jon Hockenyos, TXP, Inc.
December 2023

III. Goals and Guiding Principles

We aim to invest in our youngest children and their families and create a more livable and prosperous Austin and Travis County. In generating our recommended strategies, we balanced the following goals:

- **Increase Access**: Make high quality care available to critically under-served populations including infants, toddlers, and families in need of care during nontraditional hours.

- **Improve Affordability**: Make child care more affordable for families and employees so they can live and thrive in our community.

- **Invest in Quality**: Ensure all children have the opportunity to receive high quality care to support their development and lifelong success. This goal necessitates a robust pipeline of qualified child care professionals.

- **Grow the Workforce**: Facilitate more parents to participate and remain in the workforce through access to affordable, high quality child care.
- **Strengthen the System**: Fortify and stabilize the child care ecosystem through strategic systemic investments that will create lasting, sustainable change.

To achieve these goals, we adopted these guiding principles:

- **Ground Solutions in Data:** Build strategies based on quantitative and qualitative data specific to Austin and lessons learned from prior local investments and national best practices.
- **Seek Equity:** Ensure planning, decision-making, and implementation are informed by the lived experience of families and early childhood stakeholders. Prioritize culturally and linguistically relevant programming and work to reduce or eliminate disparities in access based on income, race, and ZIP code.
- **Leverage Existing Assets:** Practice fiscal responsibility and build on the strengths within our community, including private businesses and philanthropy.
- **Ensure Accountability and Efficiency**: Implement an effective governance body and leverage all community assets to avoid creating redundancy and complexity.

IV. Work to Date

Our recommended strategies are informed by prior experience, research, relationships with stakeholders, and community input:

- **35+ years of Community Engagement**: The Success By 6 (SX6) Coalition and Early Childhood Council have engaged hundreds of providers and thousands of families. Our recommended strategies align with the Texas Early Learning Strategic Plan and planned investments by the state over the next five years through the Texas Preschool Development Block Grant. Further, the updated SX6 strategic plan, which is in development and will be released in April 2024 after a year of deep community engagement with early childhood stakeholders, will support our recommendations.
- **Lessons Learned from the COVID pandemic and impact of ARPA Investments:**

Collectively the City of Austin and Travis County recognized child care as a vital economic sector at risk of collapse during the pandemic. More than $15 million in local ARPA funds were invested to stabilize the sector, which also provided the opportunity to pilot some innovative initiatives.

- **Urban Institute Consulting Study on Nontraditional Hour Care**: A local ARPA investment commissioned by the City of Austin, the Urban Institute compared Austin's supply and demand for nontraditional hour care against other Texas regions. After finding an unmet need, their study was followed by a pilot intervention to increase the local supply of nontraditional hour (NTH) child care.

- **CFP Cost Modeling:** In response to a City of Austin Public Health Committee briefing about ARPA investments in April 2022, the City of Austin contracted with Children's Funding Project to provide technical assistance on a local cost model analysis. The model included data from an extensive survey of Austin / Travis County child care centers and homes and an extensive review of additional research and data. Child care programs were compensated for their time to complete the survey.

- **CFP Work Group**: Austin was invited to join a cohort with 48 other communities exploring best practices for municipally dedicated children's funds. Throughout the past 16 months, members of the group have met with and to gather input from child care center and child care home operators, as well as experienced Early Childhood Council members who have verified the identified needs and analytics.

V. Recommended Strategies

As a result of the 16-month effort to date, the CFP Work Group has identified four investment strategies:

1. Subsidize Birth Through Age Three Contracted Slots
2. Expand Nontraditional Hour Care
3. Build Quality and Capacity
4. Create a Business-Government Alliance

Below we detail each strategy, their potential benefits to the community, and their estimated cost to implement.

STRATEGY ONE: Subsidize Birth Through Age Three Contracted Slots

We recommend offering additional scholarships/subsidies for children of low-income families who are not currently able to access high quality care. This program would consist of two components: (1) contracting for slots, rather than enrollments and (2) paying for cost of quality, as described below:

- **Implement a contracted slots model.** Contracted slots are recognized by the US Department of Health and Human Services as a supply-building mechanism to support children in underserved areas, infants and toddlers, children with disabilities, and children in nontraditional hour care.

  This model is currently used in Harris County as well as in Pennsylvania and Georgia. In the child care financing context, a 'contract for slots' is an agreement between a funding entity and an individual or organization for a specified time period for a commitment to maintaining capacity, aka slots. The contract also stipulates compliance (e.g. addressing how long a slot may go unused).

  According to the Urban Institute, contracting for slots "can provide stability in what is often a dynamic and unstable funding context for child care workers and providers." This method helps providers stabilize hiring, leading to less turnover. Contracted slots, therefore, are a key component of increasing quality in a high teacher turnover environment. The model also improves access to child care for infants and toddlers whose families rely on scholarships by ensuring "slots" are available.

  In the current subsidy process[3], families are on a waiting list until they receive notice that funding is available, at which point they then must seek a child care center that both accepts CCS[4] and has an opening. However, child care programs across the community have long waiting lists of families able to pay full tuition for a spot in an infant or toddler classroom. As a result, programs rarely keep a spot unenrolled while waiting for a referral from the subsidy system due to the expense of maintaining an empty slot. In contrast, under our recommended strategy, the child care program would be paid for maintaining an open slot while an eligible family is directed to fill it.

- **Pay for the true cost of quality care**. National and state research demonstrate that using market rate studies for establishing subsidy reimbursement rates are

[3] There are two Federal funding streams for child care for birth through age 5: Child Care Subsidies administered through TWC and Head Start / Early Head Start, administered to a local contractor. We recommend that licensed centers utilizing either TWC subsidies or Head Start/Early Head Start funding would be eligible to receive contracted slots or other child care initiative investments.

[4] CCS refers to the child care scholarship/ subsidy. Rates for reimbursing providers for children in care are set by the Texas Workforce Commission and Local Workforce Boards. TWC sets minimum reimbursement thresholds based on the most recent annual market rate survey. Then, Local Workforce Boards "establish maximum reimbursement rates at or above these thresholds to ensure that the rates provide access to child care in the local market in a manner consistent with state and federal statutes and regulations governing child care. Additionally, Board payment rates must allow the Board to meet performance targets determined by TWC based on statewide targets established by the Texas legislature for the number of children served."

flawed. As noted by the Bipartisan Policy Center, "market rates represent the tuition and fees that child care programs charge private-pay families. However, the prices child care programs charge often do not reflect the true cost of providing child care that meets regulatory health and safety standards, and never meet the cost of quality child care." The local cost modeling survey data confirms this research.

The current reimbursement process particularly penalizes infant and toddler capacity and contributes to the sector suffering from market failure. Instead, we recommend a reimbursement approach that encourages adding infant and toddler capacity, pays sufficiently for costs, and allows service providers to increase wages and benefits. The cost-of-quality reimbursement approach will help service providers attract and retain employees and, when targeted to infants and toddlers, expand market supply. This recommendation is likely the most important tool for alleviating market failure.

We recommend that our youngest kids and their service providers receive the most focus for the following reasons:

- Over 100 studies show that the period between birth and three years old is the *most critical for brain development*.

- *Infants and Toddlers have the longest waiting lists* for any subsidies or scholarships. There are almost 2000 children on the current waiting lists, roughly twice the number enrolled (Workforce Solutions). The proposed strategy uses the number of infants, toddlers and three year olds on the October 2023 Workforce Solutions waiting list as a proxy for estimating additional slots needed.

- *Serving our youngest costs much more than serving children over the age of three.* Currently, subsidies fall $5-7 thousand per year short of the cost of teaching infants and toddlers while older children have smaller cost-to-repayment gaps ($1-2 thousand). Parents cannot afford the true cost of serving the younger children, and the state and federal support do not do enough. (CFP Cost Modeling, University of Texas, Vanderbilt University.)

- *Child care capacity issues for the youngest cohorts are worsening* because parents of older three- and four-year-olds often can now enroll in public schools' PreK programs. This takes the most 'profitable' tuition (older kids) out of centers' financial equation. Child care programs cannot make the math work without older kids. (Early Care and Education Consortium, Princeton University)

- *Low Participation in PreK3*. While public schools can offer state-funded PreK3 for eligible students for half-day programs, the state funding is insufficient to provide for a full day. A half-day program is often a barrier for working families who require wrap-around child care. Most after-school programs do not accept 3-year-olds because licensing requirements make it cost-prohibitive for their models. In Travis County, only about 17% of eligible children enroll in PreK3. School districts are permitted to have waiting lists for PreK3. Therefore, we recommend including contracted slots for 3-year olds.

Further, *children ages four and up are more effectively supported and their care is more accessible for families at this time*. The state of Texas requires and funds public schools to offer full-day PreK for eligible 4-year-olds (Eligibility is based on family income, home language, homeless or foster children, and military families.) In Travis County, around 80% of eligible children participate in PreK4. Schools must enroll eligible children and are funded for every eligible child enrolled. They are not permitted to have waiting lists. Traditional afterschool programs on campus accept PreK4 students. Austin ISD also offers tuition-based PreK4 for a monthly rate ($550) that is nearly half the average rate for a 4 year old in child care in Travis County ($987).

In calculating a budget range, we used results from the cost of quality model at 95% utilization of a center with two infant and two toddler classrooms, a $20/hour minimum wage, and full benefits for all employees. We then used the estimated cost per age group and multiplied it by the numbers of children on the existing subsidy waiting list.

Estimated cost is $25 million (City) or $35 million (County) annually.

STRATEGY TWO: Expand Nontraditional Hour Care

The pandemic shed a light on "essential workers" and the lack of regulated child care available during nontraditional hours (early mornings and evenings, overnight, and during weekends). The City of Austin used ARPA economic recovery funds for the Urban Institute to complete a benchmarking and recommendation study.

That study identified significant gaps in nontraditional hour supply (in some cases, 25% of the Texas-wide benchmarks). It also found that providers have little incentive to add capacity as reimbursement rates dictate they generally lose money on additional operating hours. Further, the families most in need of this help tend to be lower income and work in hourly functions and key industries central to the city/county area. The analysis showed that expanding hours by just 2-3 hours daily would significantly close the benchmark gap.

Using ARPA dollars, the City and the County also funded pilots to demonstrate operating parameters and benefits. Not surprisingly, family child care homes play a significant role in covering this need. We recommend expanding on the pilots to scale across the city and county. (Nontraditional Hours Child Care Pilot Performance Report)

As pointed out in the Urban Institute report, numerous regulatory hurdles impede nontraditional hour care. Streamlining these hurdles should be a goal of the governance body overseeing this work.

The budget calculations on NTH expansion will be further refined in the next stage of the stakeholder input process. Our estimates focus on expanding the hours before 7 am and after 6 pm, consistent with the Urban Institute study. We use 1262 children (City) and 1407 children (County) needing 1.25 hours of extra time per day for 262 days. Further we estimate that the cost per child-hour is slightly under $30, which would be a 3x premium to the average cost per child-hour (consistent with today's market rate for a parent seeking after-hours care).

Estimated cost is $5.8 million City/$6.4 million County annually. Note: This strategy is NOT limited to supporting birth through age 3, but would expand care for all children under age 13.

STRATEGY THREE: Build Quality and Capacity

We offer four tactics to build capacity and improve quality of care:

- ***Shared Services ("Hubs")***: As noted, the pandemic exposed and exacerbated the fragility of the child care sector, and Travis County lost more than 20% of its licensed capacity (Children At Risk Closure Map). Sharing services through "hubs" creates an opportunity to widen the sector's razor-thin margins.

  The Greater Austin Shared Services Alliance for Early Learning was piloted with City and County ARPA funds to strengthen child care programs' business operations. Hubs build capacity by identifying common needs and creating a structure to share resources (staff, technology, information, funds) among a network of centers or homes. This includes business coaching and a focus on the automation of business components, including implementing child care management software.

  The intended benefits of hubs are to offer higher quality administration, reduce back office costs, and allow center managers to focus on staff, training, and capacity utilization. There are 29 centers in the hub, which will grow to 40 in 2024, and hub centers currently serve more than 1200 children. We recommend sustaining and expanding hub services. *Estimated cost is $750 thousand annually.*

- ***Child Care Workforce Capacity Building:*** As articulated and analyzed in the TXP report, over the past ten years child care workers as a share of total employment in Travis County have decreased from 0.58% in 2013 to 0.49% in the first quarter of this year (a total of 4,367 workers). Travis County should have approximately 5,131 child care workers, which means it is currently operating at a shortage of 764. Again, Austin/Travis County invested ARPA funds in Premium Pay Wage Stipends ($2500 in 2022, $1200 in 2023) for staff in child care programs or this number may be even lower.

To tackle the staffing crisis,we must ensure there is an adequate number of qualified staff with sufficient training and education to provide quality care. A potential solution involves adopting a strategy inspired by the successful 'Fast Track Initiative' in Virginia. This approach focuses on centralized recruitment and training for new staff, incorporating paid on-the-job training and offering three hours of community college credit as progress toward a degree credential (such as CDA or AA).

This tactic could be implemented through the Shared Services Hub. Benefits include that the Hub takes on an administrative role for recruitment and onboarding, provides required training hours at high quality, matches child care programs with mentoring, and provides more intensive and intentional support and education in the first year, akin to a formal apprenticeship. *Estimated Costs: $250 thousand per year for a cohort of 50 new educators who receive paid training while working.*

- ***Training and quality for family-based child care programs:*** The Austin/Travis County region lost 33% of its home-based child care supply during COVID (Children At Risk Closure Map). To address this challenge, we recommend continuing a strategy similar to the current AVANCE Quality Child Care Matters program that has also been implemented using local ARPA dollars. This strategy is specifically targeted for resourcing and support of home child care providers and is designed to support the entrepreneurship of small businesses currently owned predominantly by women of color. It also would include an entrepreneurship fund to provide small business grants to assist family-based programs overcome barriers to licensing and quality-ratings.

  To date, AVANCE has had great results. 21/33 participant homes have increased quality through the State licensing process (moving along a continuum of quality from unregulated to Listed, Registered, or Licensed) or Texas Rising Star Quality Rating. Collectively, these programs serve 484 children. Austin Public Health is currently applying for a planning grant that would help build out this specific strategy area with family-based providers during 2024. *Estimated cost is $500 thousand annually.*

- ***"Gap Funding'':*** As noted, current Texas subsidy rates do not cover the cost of quality. Gaps in subsidy rates and cost of quality can be as high as $7500 per child for the infant and toddler categories. This creates perverse market incentives; less capacity is added, and older kids' tuition offsets younger kids. In addition, providers pay lower wages or reduce quality and must supplement with philanthropy– although, as small for-profit businesses, many are not eligible for philanthropic grants. Lower wages result in higher turnover, which harms young children.

In addition, while the Texas Workforce Commission has increased reimbursement rates over the past several years, Workforce Solutions cannot reimburse child care programs at these rates if they are above the providers published rates for families. According to Workforce Solutions Capital Area, of the 153 contracted providers, only 16 providers have reimbursement rates at or higher than the CCS reimbursement rate. The remaining balance of 137 providers have at least one rate category out of 4 that falls below the CCS reimbursement rate. (An effort to amend this rule in the 88th legislative session failed).

<u>To meaningfully improve quality and build capacity of new child care, we must ensure that contracted slots do not compete with Workforce Solutions-subsidized capacity. The overall success or failure of the contracted slots program rests on adding net new kids</u>. The intent of this strategy is to create an equitable pay scale for both contracted slots and subsidized/scholarship slots. Thus, providers offering subsidized/scholarship slots will receive an additional payment differential equivalent to the amount offered for a similar contracted slot, thereby "topping off" the subsidized cost. Providing an additional stipend to providers can help to close the gap between the current subsidy rates and the cost of quality.

To calculate the budget impacts of gap funding, we multiplied the current number of children from birth through age three receiving subsidies times the blended gap to the cost of quality. *This totaled between $4.8 million (City) and $6.7 million (County).*

Total costs of the overall quality and capacity building strategy would be $6.4 - $8.3 million annually.

<u>STRATEGY FOUR: Create a Business-Government Alliance</u>

The TXP Inc. report clearly articulated how the lack of child care hurts businesses, the local economy, and parent's work aspirations. Building on that, the final strategy that the CFP Work Group recommends is incentivizing businesses to help cover the costs for their employees. This strategy is currently being implemented in both Michigan (Michigan Tri-Share Program) and Kentucky (Kentucky Child Care Assistance Partnership), where businesses and employers are incentivized to contribute to the child care cost of their employees by matching city or county funding to employer contributions. An example of this strategy was voted out of the Texas House this last session (called HB 3771). Unfortunately, it did not receive attention in the Texas Senate.

This strategy would target both lower and middle-income employees. Employees might pay ⅓-½ of their child care costs with employers and the City/County covering the difference (initially matched 50:50). HB3771 set a sliding scale based on the employee's income– with the lowest income receiving 25% of the tuition costs from the City/County and subsidies scaling down as family income increases.

The budget calculations for this strategy are rough estimates and will be further refined in the next stage of the stakeholder input process. The estimated budget calculation assumes a total of 989 children (City) and 1143 children (County) would take advantage of this benefit and that the base tuition rates would follow the cost of quality rates. The City or County is assumed to pay 25% of that tuition cost.

Estimated cost is $4.2 million annually City and $4.9 million annually County.

VI. Costs and Economic Benefits

We currently estimate the recommended strategies will require an annual investment between $46 and $61 million, depending on whether the City or the County initiates the funding mechanism. These figures are based on current calculations and are subject to community feedback.

Strategy	Budget Range ($Millions) City / County
Birth Through Three Contracted Slots Scholarship/Subsidies	25 / 34.8
Expand Nontraditional Hour Care	5.8/6.4
Build Quality and Capacity	6.4 /8.3
Create a Business-Government Alliance	4.2/4.9
Governance. Administration and Evaluation	5 /6.5
Total	**46.4 /60.9**

The CFP Work Group recommends a Tax Rate Election in November 2024 to fund these strategies. Below are our current estimates for the total costs at the city and county level for a TRE at $0.01, $0.02, and $0.03:

TRE Projections for FY25 (City/County)

These projections are estimates based on numbers provided by City and County staff to date

FY25 Property Tax Rate Increase ($)	Projected FY25 Property Tax Revenue ($ millions)	Projected FY25 Typical Homeowner Annual Impact ($)	Projected FY25 Typical Homeowner Monthly Impact ($)
0.01	25.7/30.7	43.96/48.95	3.66/4.08
0.02	49.4/61.4	87.92/97.91	7.33/8.16
0.03	74.1/92.1	131.87/146.86	10.99/12.24

The economic returns to early childhood investment have long proven to be robust, returning two to thirteen times the investment in total social benefits (Foundation for Child Development, National Bureau of Economic Research, CFP Work Group backup). **For purposes of this memo, we have omitted measures of the substantial long term benefits such as higher kindergarten readiness, lower special education and intervention costs, higher graduation rates, reduced costs in the criminal justice system and better jobs. Instead, we present only workforce benefits in our calculations.**

In implementing expanded childcare strategies, teachers will be hired, parents will enter the workforce, and businesses will have less turnover and benefit from a more stable workforce which will increase their revenue. Finally, those direct wages and productivity improvements multiply through the economy via increased spending and increased indirect employment.

The TXP report estimated annual benefits from these mechanisms to be $130-160 million per year, with over 4000 new jobs created.

The CFP Work Group estimates are slightly higher than TXP's as the Work Group recommends a broader suite of childcare strategies so the annual economic impact is between $186.8 and $242.1 million annually depending on a City- or County-wide scope.

Our estimates of employment increases are slightly less than the TXP report because we use a more conservative estimate of teachers added. Combining the two methods, it is safe to say that between 3551 and 4599 new jobs will be created.

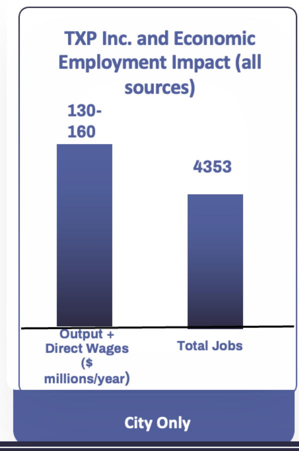
The CFP Work Group estimated how many parents and children will be impacted by the expanded childcare investment. When the strategies are fully implemented at scale, we expect over 7558 (City) and 9729 (County) families will be impacted annually. Assuming most families benefit more than one year and new families enter as others exit over time, this investment will impact over 30,000 (City) and over 40,000 (County) families over a 12 year period. And, finally, a very important value from the investment is the value to families due to either new income (entering the workforce) or avoidance of child care costs. When taken as a blended average, it means that family income uplift could be between $25,000 and $29,000 per year. A truly life changing uplift.

In summary, even without incorporating the significant long term benefits of high quality early childhood education, investment in these strategies have very high economic returns relative to their investment.

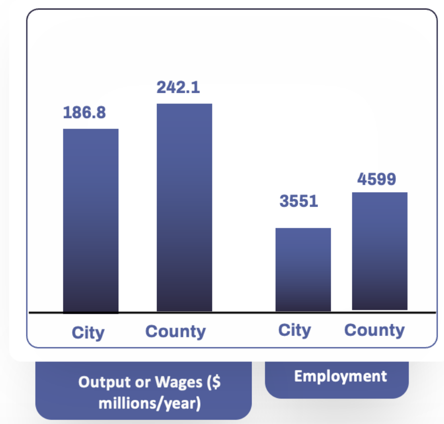
Strategy	Descriptor	Children City/County	Benefits
Birth Through Three Contracted Slots Scholarship/Subsidies	Contracted Slots for <85% SMI., $20 minimum wage	1347/1878	Workforce, Accessibility, Affordability, K Readiness, Sector Stability, Equity
Expand Nontaditional Hour Care	Annual Stipend to qualified centers/homes to expand hours	1262/1407	Workforce, Affordability, Sector Stability, Equity
Build Quality and Capacity	Shared Services, Business training, for Family Home Based and Center Based, Gap Funding,	2833/3760	Workforce, Sector Stability, K Readiness, Equity,
Create a Business-Government Alliance	Co-Subsidize with Business Childcare Payments - families up to middle income	989.1143	Workforce, Affordability
Total impacted - kids		**6431/8188**	First-year only statistics

Economic Impact on our Community

Estimates – calculations leave out proven benefits of high-quality early care: higher K-readiness, higher grad rates, less criminality, better jobs, next generation benefits



----------------------------CFP Work Group Estimates---------------------------------



Source: TXP Inc., CFP Work group estimates

VII. Administration and Governance

Plans for administration and evaluation align with the guiding principles of “leveraging existing assets and capabilities” and “ensuring accountability and efficiency.” Key recommendations include the following:

- Requiring re-authorization of the TRE by the voters. This was required in San Antonio for the ⅛ cent sales tax funding PreK4SA. We suggest a 12 year period to align again with the 2036 Presidential Election.

- Limiting administrative costs to 10%.

- Requiring a rigorous and on-going evaluation for accountability. EarlyReach in Houston allocated $2 million for evaluation; PreK4SA spends between $250 to $500 thousand annually on evaluation and conducted an ROI study for $250 thousand prior to reauthorization. *As a placeholder for this, we added 2% to administrative costs in our sample budget.*

- Implementing a community advisory body in addition to Administration and Oversight bodies. (Example: EarlyReach)

Based on the data the Children's Funding Project cohort has reviewed, we believe that a county-wide TRE would empower us to more equitably expand and sustain our local child care ecosystem by granting us the ability to serve children who reside in the County and the City where there are significant child care deserts and other barriers to affordable and accessible care. We are awaiting polling data to show us whether a county-wide initiative will be viable. We have thus formulated governance recommendations for both scenarios.

If the TRE is limited to just citywide, we recommend that Austin Public Health (APH) administer the funds. Staff who would oversee the program would be paid by the revenue within the fund. APH staff would likely create contractual relationships with one or more external organizations, such as United Way or Workforce Solutions, to help oversee the technical components of the programming, such as the contracted slots: i.e., confirming eligibility of families, providing business coaching to participating centers, etc.

In addition, the enabling legislation would ensure that the funds from the levied taxes would flow to a special revenue fund (devoted to early childhood learning and child care) and not to the General Fund. The Austin City Council would serve as the oversight body, Austin Public Health would administer the funds, and an advisory body, composed of a body with experts from the Early Childhood Council or Success by 6, as well as participating parents and providers, would provide recommendations for how the funds should be spent, as well as feedback on any new or emerging needs. Should we choose a City TRE, we would need to further specify the bylaws and appointment rules for this advisory body.

County governance could follow a model similar to the City one outlined above. In that instance, the County's Health and Human Services Department would administer the fund instead of APH and the Commissioner's Court would play the oversight role. We also would create an advisory body composed of experts like the Early Childhood Council or Success by 6, as well as participating parents and providers.

Several other options exist for governance if we do a County-wide TRE. We outline some of those County options as well as more detail for the City model in our original draft governance recommendations which we circulated in January for feedback. *Please note that those recommendations need to be updated based on ongoing conversations which suggest a County model with HHS administering would be preferable. We provide the link to the original draft simply as reference. Preferred governance models are still being outlined and all governance recommendations are subject to further review by City staff, City Council, County staff, and the Commissioners Court.*

VIII. Next Steps and Timeline