

The Early Years: Investing in Childcare Will Help Families and Our Economy

POLICY BRIEF

High-quality, affordable childcare helps prepare young children for success in school, allows parents to increase household income, and provides a stronger workforce for economic growth. Yet many Tennessee families are struggling to afford childcare, and options are limited as providers struggle to keep costs low and pay their workforce living wages.

Though Tennessee’s economy is growing rapidly, we face a worker shortage—with only 56 available workers for every 100 open jobs.¹ Some Tennessee parents are prevented from joining or staying in the workforce due to the lack of affordable childcare.²

Tennessee parents cite problems with childcare for preventing their ability to work.



20%
of parents
left the
workforce



30%
of parents shifted
from full-time to part-
time work, or could
not work full-time



32%
of parents declined a
promotion or raise, or
were unable to accept
a new job offer

Source: TQEE: The Economics of Tennessee’s Child Care Crisis (2022)

State policymakers recognize the challenge for Tennessee’s working families and drain on our state’s economy—resulting in over \$2 billion in lost revenues and annual GDP nearly 0.6% lower than it could be—and have considered solutions in recent years to address this “childcare crisis.”

Estimated Economic Impacts of the Lack of Childcare in Tennessee



\$1.65 BILLION
Lost from lower earnings, lower productivity,
and increased job displacement



\$413 MILLION
In lost tax revenues due
to lower spending and income levels



\$497 MILLION
In lost revenue and extra workforce costs



0.6%
Annual loss to state GDP

Source: TQEE: The Economics of Tennessee’s Child Care Crisis (2022)

This policy brief highlights four recommendations to increase childcare capacity in our state and better support our state’s workforce.



POLICY RECOMMENDATIONS

- Eliminate regulatory barriers to help childcare providers expand and increase availability while protecting health and safety.
- Encourage the business community to create more childcare slots and lower costs for their employees.
- Improve job quality for childcare workers to help recruit and retain the industry’s workforce.
- Invest in childcare for low-income families to help increase their ability to find and retain employment.

Tennessee's lack of affordable childcare is hurting the state's economy.



Tennessee's economy is growing rapidly, with approximately 45,200 new jobs added from 2023 to 2024. Yet, as of September 2023, we have only 56 available workers for every 100 jobs, and at 59.4%, our state's labor force participation rate is below the national average of 62.5%.³

The lack of affordable childcare options across the state contributes to this worker shortage, preventing some Tennessee parents from joining or staying in the workforce. As a result, the state is estimated to lose over \$2 billion annually from lower earnings and productivity, increased job displacement, and lost tax revenues.²

Tennessee has a shortage of 58,000 workers.

Source: An Economic Report to the Governor of the State of Tennessee, 2025

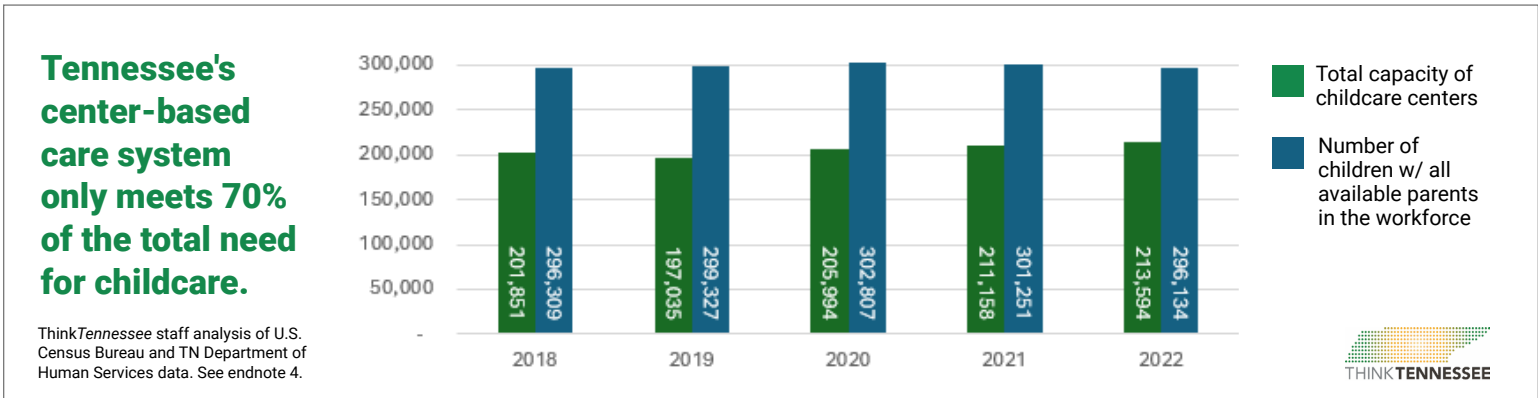
Tennessee's childcare system is not meeting the needs of working families.

Tennessee does not have enough childcare slots for the children that need one.



Between 2018 and 2022, center-based childcare provided 207,571 slots statewide, yet on average there were 299,166 children whose parents were in the labor force—a shortage of 91,595 slots.⁴

While licensed, center-based care centers were able to improve capacity in this time period, it was not enough to meet the need (adding only 19,719 slots), and licensure-exempt providers decreased slots by 5,776, further limiting available spaces.⁵

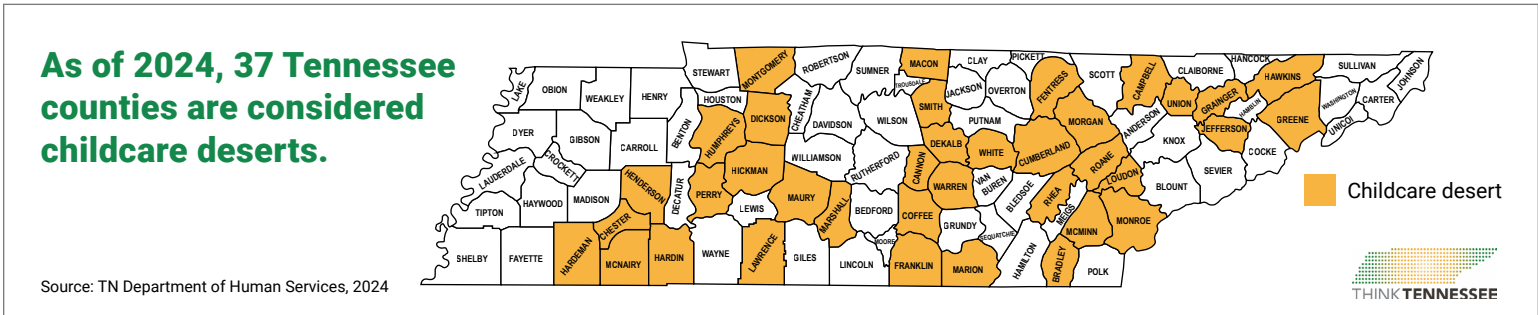


Tennessee has reduced the number of "childcare desert" counties, but 37 still face significant gaps.




In 2024, the number of childcare deserts (those with a significant gap between the number of children under age 6 with all parents in the labor force and the capacity of all childcare providers in the county) decreased from 51 to 37.⁶

Yet, childcare providers in all counties continue to struggle to hire staff, face high property and insurance costs, and often lack resources to maintain compliance with regulatory requirements (such as fire code inspections or addressing restrictions on hours of operation).⁷



Without better wages and benefits, there won't be enough childcare workers to meet demand.


 Childcare providers nationwide struggle to recruit and retain staff due to insufficient wages and advancement opportunities, as well as inadequate benefits and unstable working environments, resulting in their serving fewer children than their full capacity.⁸

In Tennessee, the annual wage for childcare workers (\$27,470) is nearly two-thirds of the median annual wage (\$43,820).⁹

Early care and education workers are 6.5 times more likely to live in poverty than elementary and middle school teachers—with 37% of early educator households receiving public safety net benefits, at an estimated cost of \$74M in taxpayer dollars.¹⁰ One in four early educators live with a child under the age of six and need childcare themselves.

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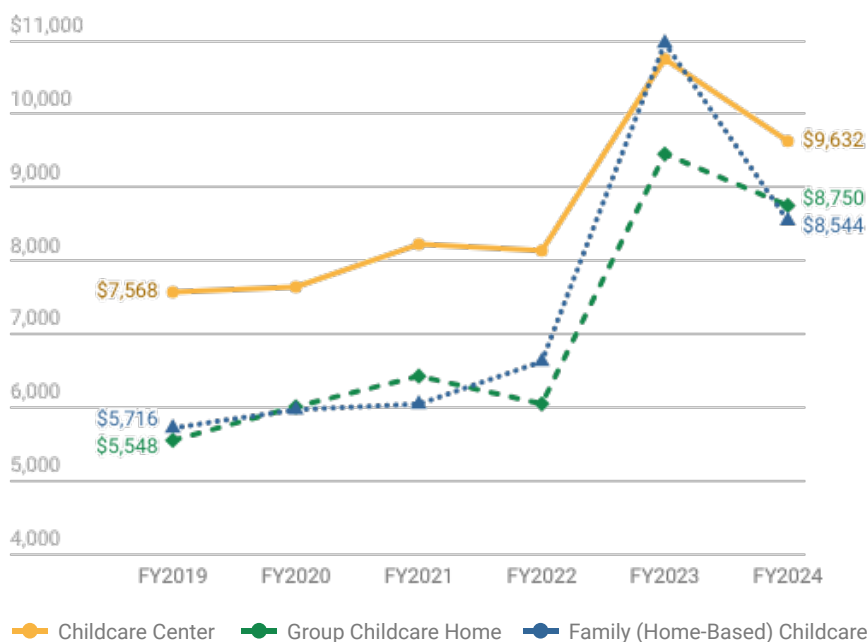
Even where childcare capacity exists, it is often too expensive for many Tennessee families to afford it.

 The U.S. Department of Health and Human Services defines affordable childcare as 7% of household income, yet Tennessee families earning the median income spent an average of 28% in 2022 and 41% in 2023.¹¹

Childcare costs for some two-child families in 2023 were 25% higher than housing costs and 3% higher than in-state college tuition.¹² The overall median cost for center and home-based childcare in Tennessee has increased 50% since 2019.

Cost can change significantly based on the location and capacity of the childcare center, as well as the child's age. In 2024, for example, the average annual childcare cost for infants in a center-based care facility was \$11,290, compared to \$9,796 for children over the age of two.

The annual cost of childcare for all types of care has increased significantly post-COVID.



Definitions

Childcare Center – A facility that provides childcare for three or more hours per day for at least 13 children.

Group Childcare Home – A facility that provides childcare for three or more hours per day for 8 to 12 children.

Family (Home-Based) Childcare – A facility that provides childcare for three or more hours per day for 5 to 7 children.

License-Exempt Childcare – A facility that is not required to have a TN Department of Human Services license, such as Boys and Girls Club or summer camp programs, as well as facilities that are regulated by other agencies such as the TN Department of Education.

Source: TN Department of Human Services

Source: TN Department of Human Services¹³





In January 2025, the Tennessee Advisory Committee on Intergovernmental Relations (TACIR) issued a report with recommendations to reduce barriers for childcare businesses and support the state's childcare workforce. Recommendations include coordinating licensing requirements across state agencies, facilitating faster state and local inspections, aligning state and local zoning regulations and fire codes, and offering salary supplement programs based on years of service.

As policymakers evaluate these proposed solutions that help working families afford high-quality childcare, here are four additional policy recommendations to consider, drawing on examples from other states.

1



Eliminate regulatory barriers to help childcare providers expand and increase availability while protecting health and safety.

Changing zoning regulations that restrict where childcare businesses can be located within communities can allow more opportunities for new facilities or businesses.

- In 2024, **Virginia** allowed localities to waive zoning permit requirements for new daycare programs in existing office buildings that meet state licensure requirements.¹⁴

Streamlining processes, like background checks for new employees, can also expand capacity.¹⁵

- In 2023, **Nebraska** allowed background check results to become portable between childcare providers to facilitate the hiring of new employees.

2



Encourage businesses to create more childcare slots and lower costs for their employees.

Businesses can work with partners to provide childcare centers at their employment sites or in their community.

- In **Tennessee**, BlueOval City and Ballad Health are helping to expand childcare capacity in West and East Tennessee.¹⁶

Businesses and governments can also provide financial assistance for employee's childcare costs.

- In **North Carolina** and **Kentucky**, Tri-Share partnership agreements evenly split the childcare cost burden between employers, local or state governments, and families.¹⁷

3



Improve job quality for childcare workers to help providers recruit and retain the industry's workforce.

Provide tuition subsidies, scholarships, and bonuses for professional development opportunities for childcare workers.

- **Kentucky** provides workers in a licensed childcare program with a childcare tuition subsidy for the care of their own children, helping to support both workers and employers.¹⁸

4



Invest in childcare for low-income families to help their ability to find and retain employment.

Investments, such as high reimbursement rates that cover the total costs of childcare, could help low-income families to enter or stay in the workforce.

- In **Louisiana**, families with incomes at 150% of the federal poverty line pay no out-of-pocket expenses for childcare, and in 2022, the state doubled its childcare assistance program reimbursement rates for infants in center-based care.¹⁹

Investing in the childcare system and ensuring every child has access to high-quality, affordable care supports our working families and helps provide the workforce that our state needs.

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