THE ECONOMIC IMPACT OF THE CHILD CARE INDUSTRY IN MERCED COUNTY

A study sponsored by

Merced County Children and Families Commission (First 5),
Merced County Human Services Agency,
Merced County Workforce Investment Board,
Merced County Department of Business-Economic Opportunities,
Merced County Community Action Agency
Merced County Local Child Care Planning Council,

And prepared by

NATIONAL ECONOMIC DEVELOPMENT AND LAW CENTER

BACKGROUND

This report is based on a series of reports originally produced by the Local Investment in Child Care (LINCC) Project, launched in 1997 with support from the David and Lucile Packard Foundation, and designed to incorporate child care into local economic development planning. As part of the LINCC project, the National Economic Development and Law Center (NEDLC) produced Child Care Economic Impact Reports (CCEIRs) for eight counties in California in 1999. CCEIRs articulate child care in economic development terms and quantify the ways in which the child care industry is critical to the local economy. In addition, the reports help to build local partnerships aimed at increasing the child care industry's capacity to respond to the shifting child care needs of California families. The Merced County Children and Families Commission (First 5), with financial support from the Merced County Human Services Agency, Merced County Workforce Investment Board, Merced County Department of Business-Economic Opportunities, Merced County Community Action Agency, and the Merced County Local Child Care Planning Council, contracted with NEDLC to quantify the economic impact of the child care industry in Merced County.

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Section 1
Introduction

This report is a tool to bridge the gap between economic development planning and child care advocacy, demonstrating that child care is a critical component for any comprehensive plan for sustained economic development in local communities. Policy makers, business leaders, urban planners, and a host of other community leaders are already discussing ways to improve the economic vitality and quality of life for families in Merced County. However, child care is often left out of economic planning and analysis, although it is an important aspect of the Merced County's economy for three main reasons.

First, child care is essential in enabling parents to work. The nature of working America has changed dramatically since the 1950's, and child care has changed with it. Parents are joining the labor force in record high numbers and are also returning to work more quickly following the birth of each child. In Merced County, over 11,000 children under six have all parents in the labor force, and over 19,000 children between 6 and 13 have all parents working, representing 51 percent and 55 percent of all children in their respective age groups.[1] Similar to transportation and housing, without available and affordable child care services, parents are unable to effectively participate in the workforce.

Currently in Merced County, over 30,000 children ages 13 and under need some form of care because their parents are in the labor force.

Second, high-quality child care ensures a strong economy in the future. Historically, child care has been perceived primarily as a social service or, at best, an educational service for parents who want to (and can afford to) provide their children with early learning experiences. Recent research on early brain development demonstrates that, far from being a luxury, child care is a vital service that improves children's health, school readiness, and contribution to society. Quality child care also creates external economic and societal benefits for Merced County by reducing future public sector spending in such areas as the criminal justice system and welfare assistance. Cost- benefit analyses of three long-term studies indicate that every dollar spent on quality child care results in as much as seven dollars in future public savings.[2]

The child care industry:

- **Enables parents to work and be more productive in their jobs**
- **Ensures a strong future workforce**
- **Is a major industry in its own right**

Third, child care is a major industry in Merced County in its own right. Research presented in this report demonstrates that licensed child care is a significant income-

1 U.S. Census Bureau. Census 2000.

2 Barnett, Steven, W. *Some Simple Economics of Preschool Education.* Presented at the Early Childhood Municipal Leadership Academy, sponsored by the Institute for Youth, Education, and Families, National League of Cities, Alexandria, VA, April, 2002.

generating, job-creating industry. Child care contributes more in annual gross receipts than other major industries in the county, such as clothing stores and legal services. In addition, the industry employs more people than the finance and insurance industry. Merced County's licensed child care industry directly employs 1,144 people and generates approximately $33.5 million per year in gross receipts.[3]

Despite the industry's economic significance, it is unable to meet the increasing need for affordable child care services, and faces a number of barriers, including low reimbursement rates for publicly subsidized services, low wages and high turnover—all of which create an unstable child care industry. Child care creates economic benefits for the families who use it and for society at large because it is a public good. However, parents of young children rarely have the income necessary to pay for the complete costs of child care; therefore, it is imperative that nontraditional stakeholders develop comprehensive investment strategies to ensure affordable child care.

This report presents a wide range of compelling evidence showing investments in the child care infrastructure have direct, positive effects on the ability of the local economy to experience growth and vitality. The report also demonstrates that an intimate understanding of the interaction between child care supply and economic growth improves the efficiency of investments in child care, and saves both private and public expenditures directly and indirectly. To cast child care in an economic development light, this report:

- Quantifies the local economic effects of the licensed child care industry in Merced County
- Assesses the extent to which child care currently supports the economy of Merced County
- Discusses other economic benefits of child care, including public sector savings that result from investments in quality child care
- Evaluates issues in the supply and demand for child care in Merced County that affect the future performance of the county's economy.

Defining Child Care

Child care includes a range of services that educate and nurture young children and enable parents to work or attend school. For the purposes of this report, child care includes full-day and part-day child development programs for young and school-age children, such as licensed family child care homes, child care centers, Head Start, California Child Development Centers (state pre-schools and general child development centers), Pre-schools for Children with Special Needs,[4] and other governmental child care programs.

3 See Section 3 for further discussion of results and methodology.

4 While Pre-schools for Children with Special Needs are not required to be licensed, for the purposes of this report, they are considered licensed because they are part of the formal child care sector.

Child care may be licensed or license-exempt. *Licensed child care* meets minimum health and safety standards and staff-child ratios set by the state legislature and regulated by the Community Care Licensing Division of the California Department of Social Services. Licensed establishments include most child care centers and many home-based providers, or "family child care homes." Family child care homes are licensed as small or large, depending on the number and ages of children served (small and large family child care homes can serve a maximum of 8 and 14 children, respectively, of varying ages). Licensed child care establishments, especially child care centers, must make capital investments in buildings and equipment to provide high-quality care. They must also cover employee salaries and benefits that attract and retain educated, credentialed staff. In short, licensed child care must meet state criteria for quality while maintaining a viable business.

In contrast, *license-exempt child care* generally is not regulated by the state and is not governed by any specific child care standards. However, license exempt providers that accept state or federal subsidies are required to register with Trustline, California's background check for in-home child care. License-exempt child care services include nannies, babysitters, parent cooperatives, relative care, and some formal home-based care arrangements (where care for no more than one other person's children is taking place). In addition, certain before- or after-school programs for school-age children in public and private schools are exempt, as well as certain public and private recreation programs.

Analyses in this report exclude legally unlicensed care by nannies, babysitters, or relatives, making the economic estimates conservative in terms of the full impact of the child care industry.

Because licensed child care is a formal part of the economy (i.e., the sector is subject to taxes, state regulations, etc), its economic impact is more easily quantified. Although unlicensed child care arrangements are widely used, and add much to the economy, it is more difficult to track and ascertain their impact. Therefore this report focuses on licensed care.

The Local Investment in Child Care Project

This report is based on a series of reports originally produced by the Local Investment in Child Care (LINCC) Project, launched in 1997 with support from the David and Lucile Packard Foundation. The project is designed to incorporate child care into local economic development planning. It is currently operating in Alameda, Kern, Los Angeles, Monterey, Orange, San Mateo, Santa Clara, Santa Cruz, and Ventura Counties. The Economic Impact Reports developed for each of these counties articulate child care in economic development terms and facilitate dialogue between the child care sector, local policymakers, business leaders, and private lenders. In addition, the reports aim to build local partnerships to increase the child care industry's capacity to respond to the shifting child care needs of California families.

Outline of the Report

Following the introduction presented in **Section 1**, **Section 2** reviews recent economic and demographic trends in Merced County and suggests implications these trends have on the county's child care industry.

Section 3 measures the overall economic effects of child care by the size of the industry in terms of both output and employment, discusses the methodology behind the measurement, and assesses several other features of the child care industry that affect its size and performance.

Section 4 analyzes the impact child care has on economic competitiveness and worker productivity. It also estimates the economic output of working parents using licensed child care. Lastly, it discusses other economic benefits of child care, including: public sector savings that result from investments in quality child care; the impact of child care on increasing school readiness and academic success; the development of the future workforce, and the maintenance of the county's high quality of life standards.

The report concludes with **Section 5**, which outlines some of the public and private strategies that can be used to ensure that the projected economic and population growth in Merced County does not overwhelm the county's child care industry. The section also provides recommendations based upon the concepts articulated in this report. It suggests key areas for Merced County's policymakers, business and civic leaders, economic development planners, and child care advocates to consider when planning for local urban and economic development activities.

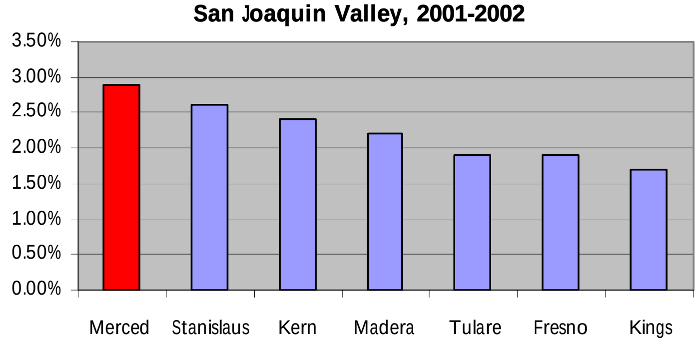
Section 2
Economic Profile of Merced County

Merced County has seen steady population growth, fueled by childbirths and immigration over the last ten years. Projections indicate that the county will experience a similar trend in the next 20 years. Additionally, the county has undergone a dramatic shift in the racial/ethnic make up of its residents with Hispanics/Latinos accounting for over 45 percent of the total population—more than any other ethnic/racial group. Economically, Merced County is gradually transitioning from an agriculture-based economy to a service-based economy, but its economic potential is being held back by low labor force participation and a lack of a highly skilled workforce. These characteristics have significant implications for child care leaders, business leaders, government officials, economic development planners, and other key stakeholders who are responsible for strategic planning for and the economic development of the county.

Population

Merced County's population increased 26 percent from 1990 to 2002, with an estimated 225,400 residents in 2002.[5] Additionally, the county's percent change in total population outpaced California's statewide growth by more than seven percent over the same given time. Furthermore, from 2001 to 2002, Merced County grew faster than any other county in the San Joaquin Valley (see Figure 1).[6]

Figure 1
Percent Population Growth of Counties in San Joaquin Valley, 2001-2002



Projections reveal that current population trends are expected to continue in the next several decades. Specifically, Merced County's population is projected to increase an estimated 44 percent from 2002 to 2020, totaling 319,785 residents, including almost 17,000 children under the age of five.[7]

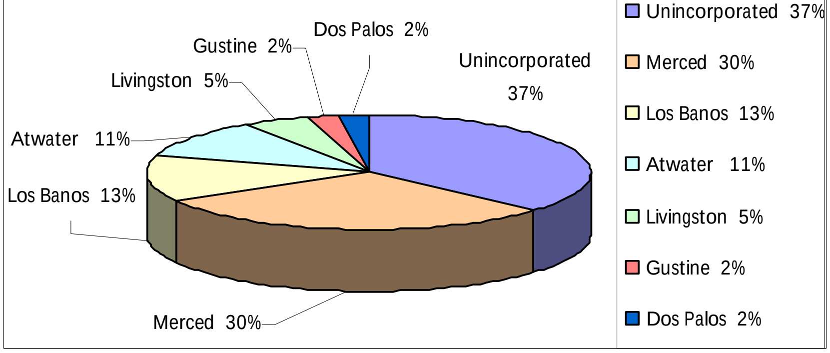
[5] U.S. Census Bureau. Census 1990 and 2000.
[6] California State Department of Finance. E1 City/County Population Estimates, 2002.
[7] California State Department of Finance. County Population Projections with Age, Sex and Race/Ethnic Detail July 1, 1990-2040 in 10-year Increments.

The city of Merced is Merced County's largest city, housing 30 percent of all residents. However, Los Banos, Merced County's second-largest city, grew 78 percent from 1990 to 2000 and accounted for over one-third of the county's overall growth. Atwater, the third-largest city in the county, grew by four percent from 1990 to 2000, despite the closure of the Castle Air Force Base in 1995. This suggests that Atwater will grow at an even faster rate over the next ten years.[8]

Los Banos is Merced County's fastest growing city. Its population increased 78 percent from 1990 to 2000—accounting for more than one-third of the county's overall growth.

Almost 17 percent of the county's population lives in rural areas, and 37 percent of the population lives in unincorporated areas (see Figure 2).[9]

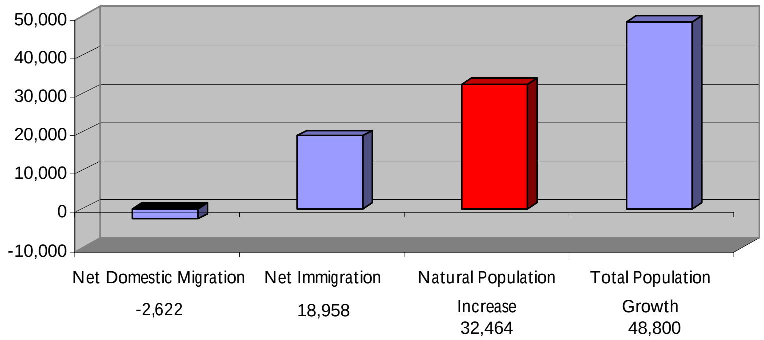
Figure 2
Percent of Total Population, By City, Merced County, 2002



Childbirth is the primary driver of population growth in Merced County. From 1990 to 2002, the county's natural population increase[10] was over 32,000 residents, accounting for two-thirds of the total population increase over the same time span (see Figure 3). A net estimate of almost 19,000 people moved from outside the U.S. into Merced County (net immigration) from 1990 to 2002. However, during the same time span, almost 3,000 residents moved from Merced County to other counties in the U.S. (net internal migration).[11]

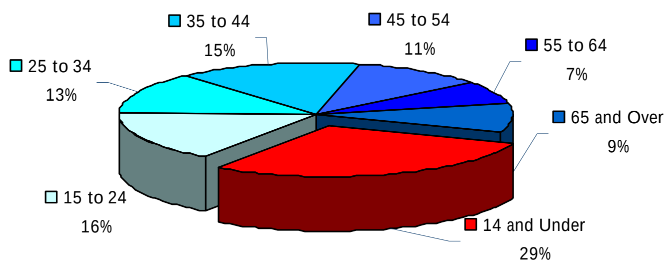
[8] Center for Public Policies at California State University, Stanislaus. *Strategic Choices: Creating Opportunity in Merced County, 1999.*
[9] U.S. Census Bureau. Census 2000.
[10] The natural population increase is the difference between births and deaths.
[11] California State Department of Finance. County Population Estimates and Detailed Components of Change July 1, 2000-2002, with 2000 Census Counts.

Figure 3
Components of Population Change in Merced County, 1990-2002



Merced County has the youngest population of any county in California, with children ages 14 and under comprising nearly 29 percent of the total population and totaling 64,000 residents in 2002 (see Figure 4).[12]

Figure 4
Percent of the Total Population, By Age,
Merced County, 2002



In addition, the percentage of young children ages five and under in Merced County is higher than 57 out 58 counties in the state. There are over 23,000 children ages zero to five in Merced County, and they account for approximately eleven percent of the general population.[13] With the significant proportion of young children in the county it is not surprising that there is a high demand for licensed child care for infants.

The youth dependency ratio[14] is an important gauge for quantifying a workforce's ability to absorb the dependency costs of children, who, like older adults (adults 65 and over), are most likely to utilize public services. The county's ratio is 52, meaning that for every one hundred adults of a working age (ages 16 to 64) there are 52 children. The county's youth dependency ratio is higher than any other county in California (see Figure 5).[15]

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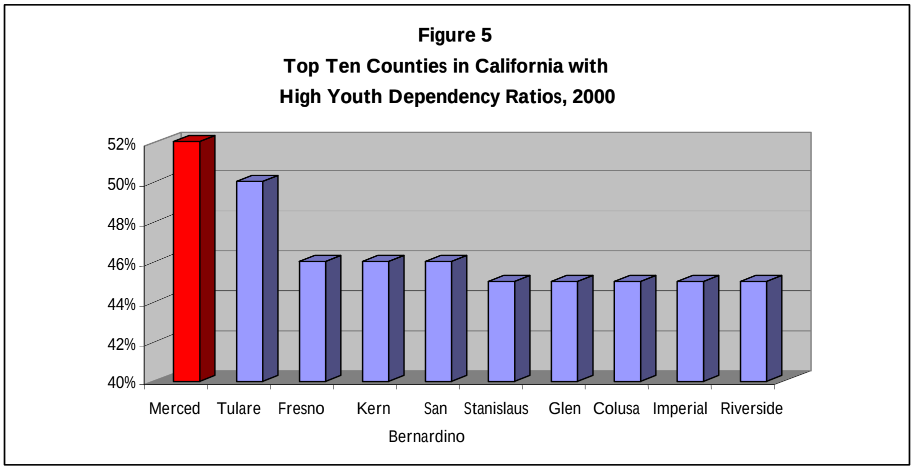
[12] U.S. Census Bureau. Census 2000.
[13] Ibid.
[14] A youth dependency ratio is the number of children ages 15 and under divided by the number of adults in the working population (adults ages 16 to 64).
[15] U.S. Census Bureau. Census 2000

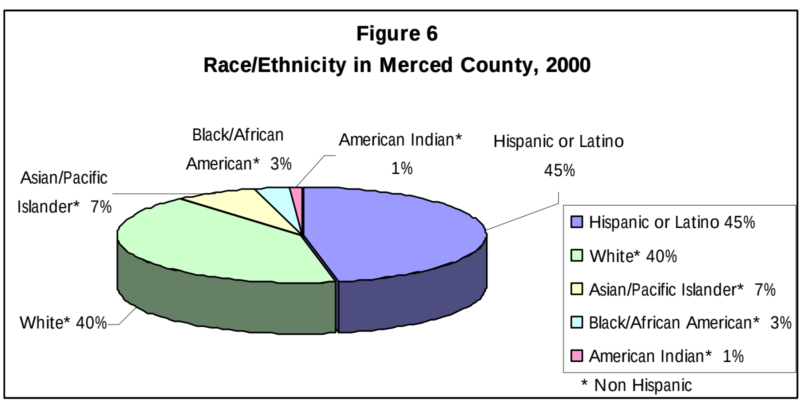


Additionally, of the 29,613 families with children under 18 years old in Merced County, almost 27 percent are single-parent families. Over 14,000 families have at least one child under the age of six, and of these families, nearly 4,000 are single-parent families.[16]

Merced County has the youngest population of any county in California. Child care leaders and nontraditional stakeholders need to form partnerships that focus on the child care needs of this growing population of young children.

Diversity

The majority of Merced County residents (54 percent) were non-Hispanic whites in 1990. By 2000, there were more Hispanic/Latino residents than any other racial/ethnic group—45 percent in 2000. Asian Americans/Pacific Islanders are the third-largest racial/ethnic group in Merced County, accounting for seven percent of the population in 2000 (see Figure 6).[17]



Although Hispanics/Latinos comprise 45 percent of the overall population in Merced County, they comprise a much higher percentage of children. In fact, Hispanic/Latino

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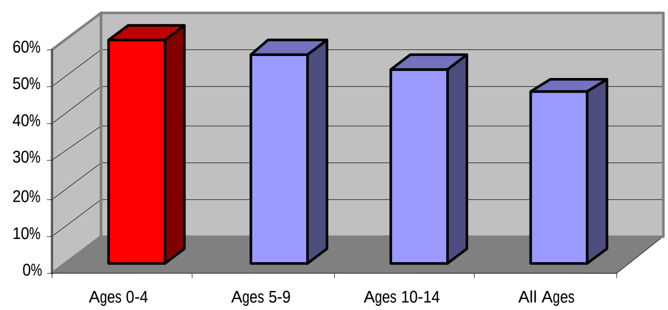
[16] U.S. Census Bureau. Census 2000
[17] U.S. Census Bureau. Census 2000 & Census 1990

children ages 14 and under account for 55 percent of all children of the same age group. This trend is even more striking in younger children (see Figure 7).[18] Because Hispanics/Latinos make up a large proportion of children, they are expected to account for an even larger percentage of the general population in the coming years.

Figure 7
Percentage of children who are Hispanic/Latino, by age, Merced County, 2000



Of the 54,118 children ages 5 to 17 in 2000, only 51 percent spoke only English and over 7 percent reported speaking English either "not well" or "not at all." Almost 40 percent of children ages 5 to 17 speak Spanish.[19]

Additionally, in 2000-2001 school year, over 1,600 children entering kindergarten were learning English for the first time, of which 81 percent were Spanish speakers and 14 percent were Hmong speakers. These children accounted for approximately 43 percent of all children entering kindergarten.[20]

Policy Analysis for California Education estimates only 22 percent of family child care centers in the county, which serve the majority of children in licensed child care in the county, have at least one staff member who can speak Spanish.[21]

Approximately 43 percent of all children entering kindergarten in Merced County are English learners. The shift in the racial/ethnic make up of children in Merced County requires a varied array of culturally appropriate child care and education programs. Dual- or multi-lingual staff, in particular Spanish- and Hmong-speakers, are necessary to communicate with children and their parents, and culturally sensitive curricula and care are necessary for meeting parents' desires for their children's upbringing.

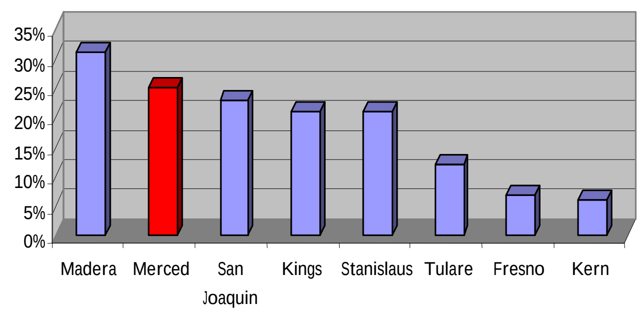
[18] U.S. Census Bureau. Census 2000.
[19] Ibid.
[20] Merced County Children and Families Commission (First 5). *Secondary Data Report, January 2003.*
[21] Ibid. Approximately 76 percent of child care centers have at least one staff member who can speak Spanish.

Transportation

Child care and transportation are both critical elements of a strong county economic infrastructure and both enable people to work and access community services. Barriers to transportation or child care limit economic and educational opportunities for Merced County residents.

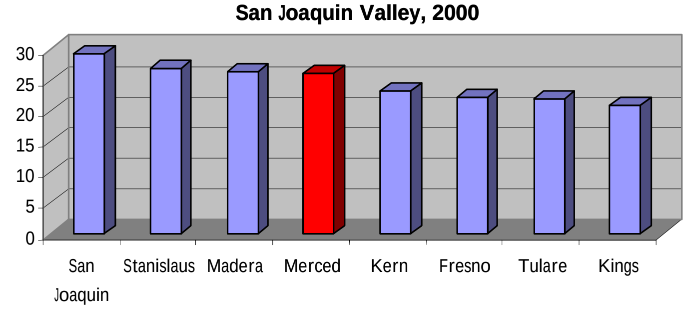
Approximately 25 percent of Merced County's workforce was employed outside the county in 2000, which is the second-highest percentage of any county in the San Joaquin Valley (see Figure 8).[22] In Los Banos, the closest incorporated city to the Silicon Valley, almost 45 percent of the labor force commutes outside of Merced County.[23] In addition, in a survey of the workforce in Merced County, over 34 percent reported commuting more than one hour to work.[24]

Figure 8
Percentage of Labor force Commuting,
Outside County of Residence, San Joaquin Valley, 2000



From 1990 to 2000, the one-way mean commute time for labor force participants in the county increased from 17 to 26 minutes—over 34 percent. While the average commute time is slightly lower than the California statewide average of 28 minutes, it is higher than many counties in the San Joaquin Valley (see Figure 9).[25]

Figure 9
One-Way Mean Commute Times, in minutes,
San Joaquin Valley, 2000



[22] U.S. Census Bureau. Census 2000.
[23] Merced County Association of Government. *Job Access Plan for Merced County, 2002.*
[24] Merced County Economic Development Corporation. *Merced County Workforce Assessment Report, 2002.*

Of employees who commute, less than one percent reported using public transportation in 2000, demonstrating that the county is automobile dependent. However, one in ten households do not have access to a vehicle, meaning that they might not have the same economic opportunities as those who can afford a car.[26]

The Child Care Needs Assessment, Provider Assessment & Plan recognizes the need for more accessible child care in the county. It found that:

- Only 15 percent of parents surveyed in the assessment are willing to travel more than 10 miles for child care; and
- Teens needing child care outside their home to attend school are especially challenged in arranging transportation for their child and themselves.[27]

According to the *Job Access Plan for Merced County,* most of the licensed child care centers and large family child care homes are located within a "reasonable" walking distance of transit routes.[28] However, most routes experience long headways,[29] making the system difficult for working parents to utilize. In a survey of transit riders in 2000, the most common response for what could be improved about county's transit system was "more frequent service."[30]

Merced County suffers from a low supply of high-skilled workers, low labor force participation and historically high unemployment. Each characteristic limits the county's potential for economic development.

Labor Force

Merced County's low supply of skilled workers, low labor force participation rate, and historically high unemployment present obstacles for sustained economic development of the region. Between 1990 and 2000, the population of eligible workers (ages 16 to 64) increased by almost 18 percent in Merced County, but the labor force grew by only 11 percent.[31] In a focus group of business and community leaders, participants raised child care as a potential factor in this decline of labor force participation and sustained employment.[32] All in all, over 40 percent of the Merced County's residents ages 16 and over do not participate in the workforce.[33]

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25 U.S. Census Bureau. Census, 2000.
26 Ibid.
27 Ibid.
28 Merced County Association of Governments. *Job Access Plan for Merced County, 2002.*
29 Merced County Association of Governments. Merced County Transit Timetables, 2003. Headways are the time intervals between vehicles moving in the same direction on the same route. In Merced County, most headways are at least 45 minutes, though some lines have 30 minute headways during the morning commute.
30 Merced County Association of Governments. *Job Access Plan for Merced County, 2002.*
31 U.S. Census. Bureau. Census 2000.
32 Center for Public Policies at California State University at Stanislaus. *Strategic Choices: Creating Opportunity in Merced County, 2002.*
33 U.S. Census Bureau, Census 2000.

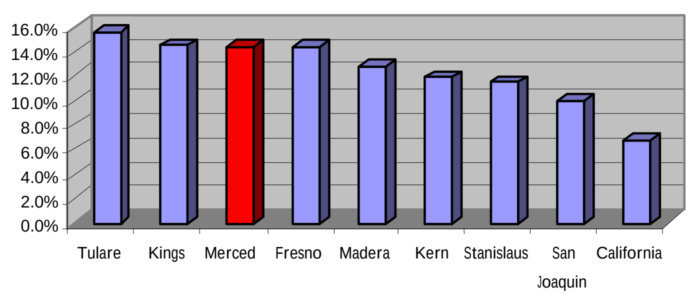
Female labor force participation has steadily been increasing in Merced County. Increased female labor participation is necessary to fuel economic growth, and an accessible and affordable child care infrastructure is needed to maintain and sustain this participation.

The percentage of females over 16 participating in the labor force, a key determinate of child care need, outpaced the population growth by six percent from 1990 to 2000. By 2000, 51 percent of females over 16 participated in the labor force, which was a two percent increase from 1990.[34] However, the California statewide female labor force participation rate is 55 percent, indicating that a lack of accessible, affordable, and quality child care could be impeding females in Merced County from participating in the labor force. In a survey of TANF recipients in Merced County, close to 20 percent of those recipients reported that child care was a major factor that limited their sustained employment and child care was one of the top six factors that inhibited recipients from working.[35]

Additionally, the percentage of those within the labor force who cannot find a job (the unemployment rate) is high. The 2002 annual unemployment rate was 14.4 percent, which is the third-highest in the San Joaquin Valley, and is more than twice as high as the California statewide 2002 annual unemployment rate of 6.7 percent (see Figure 10).[36]

Figure 10

2002 Annual Unemployment Rates, San Joaquin Valley & California



A low supply of highly skilled and educated workers in Merced County undermines the county's ability to attract new businesses with higher paying jobs and thus, is a detriment to the county's long-term economic prosperity. Over one-third of the adults over 25 do not have a high school diploma and only 11 percent have a bachelor's degree.[37] Employers in Merced County were asked to prioritize key challenges facing businesses

[34] U.S. Census Bureau. Census 2000.

[35] Center for Public Policy Studies at California State University, Stanislaus. *Welfare to Work in Merced County: Perspectives and Assessments, June 2000.*

[36] California Employment Department. *Monthly Labor Force Data for Counties.*

[37] Chabin Concepts Team. *Merced County Economic Development Assessment Reports: Workforce Assessment, 2003.*

and industries, and approximately one-third indicated that employee skills was their most serious challenge.[38]

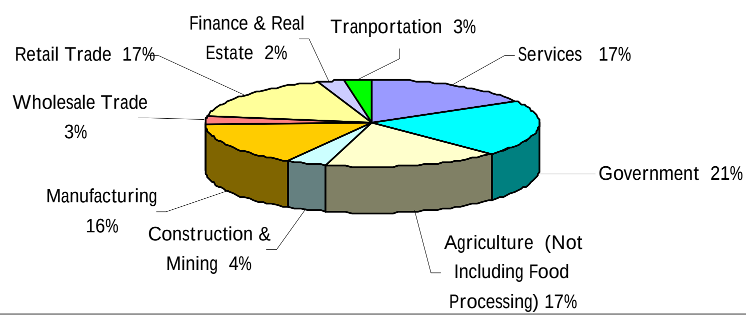
In a survey of Merced County's employers conducted by Chabin Concepts Team, approximately one-third indicated that employee skills was their most serious challenge.

In 1998, the Center for Public Policy Studies at California State University, Stanislaus, reported in *Strategic Choices: Creating Opportunity in Merced County* that the significant number of workers from western Merced County commuting to the Bay Area for higher wages were workers that could be a "potential economic development asset"[39] for attracting businesses from the Bay Area to the Merced region. However, a survey of the Los Banos workforce conducted by the Chabin Concepts Team indicates that this premise is only partly true. While the median wage of those commuting from Los Banos to the Bay Area was substantially higher, those employed in Merced County were almost four times more likely to have a bachelor's degree than those employed in the Bay Area.[40]

Merced County's economy has not diversified as fast as most counties in California and its dependence on low-paying jobs threatens future economic growth in the region. In 2001, there were approximately 63,000 jobs in Merced County. The public sector employs more workers in the county than any other industry—almost 21 percent of total employment. Other leading industries include: agriculture, manufacturing, retail trade, and services, and each industry employs at least 16% of all employees in the county (see Figure 11).

Figure 11

Employment by Industry in Merced County, 2001



The service industry (which currently includes the "child day care services" industry classification), accounts for almost 17 percent of all jobs in the county (see Figure 11), and from 1997 to 2001 had the fastest job growth of any industry in the county. Industry projections reveal that by the 2006, the service industry will grow by 27 percent.[41]

[38] Chabin Concepts Team. *Merced County Economic Development Assessment Reports: Workforce Assessment, 2003.*
[39] Center for Public Policy Studies at California State University, Stanislaus. *Strategic Choices: Creating Opportunity in Merced County, 1999.*
[40] Chabin Concepts Team. *Merced County Economic Development Assessment Reports: Workforce Assessment, 2003.*
[41] California Employment Development Department. *County Snapshots: Merced County, 2002.*

Large companies in Merced County span many industry sectors. Many of the larger employers in the Merced County are agriculture firms, including Foster Farms, which is the single-largest employer in the county. Lipton, J.R. Wood, and Gallo are also major employers of the agricultural industry. Of the public sector, the Merced County Government and the Merced City School District each employ over 1,400 people. Of jobs in the service industry, medical services, including Mercy Merced Medical Center and Mercy Hospital Health Service are large employers. Also, Cingular Wireless' call center employs over 1,200 people. Other major employers in Merced County include: Quebecor, Merced College, the City of Merced, and WalMart.[42]

Cost of Living

The Self-Sufficiency Standard measures the amount of income needed for a family to adequately meet its needs without government assistance.[43] Merced County's self-sufficiency wage is $32,912 for an adult with two small children, which is similar to other counties in the San Joaquin Valley and lower than those in the Silicon Valley.[44]

While Merced's self-sufficiency wage is comparably low, the percentage of jobs whose full-time yearly income is below this standard is high. The average hourly wage for all occupations in Merced County is $7.13[45]—significantly lower than the self-sufficiency wage for a single adult with an infant child ($11.77/hour).[46]

Of the top ten jobs with greatest absolute projected growth from 1999 to 2006, only 30 percent paid an hourly self-sufficiency wage ($15.58/hour for a single-parent family with two school-aged children) in 2002.[47] Furthermore, approximately one-half of Merced County area jobs pay less than $8.63/hour for entry-level positions.[48]

While Merced County's housing costs may seem low compared to those of in more affluent parts of California, in reality, Merced County is one of the least affordable housing markets in the United States, when its median income is also considered.

One of Merced County's strongest attributes for attracting businesses and high-skilled workers to the area is its relatively low cost of living. However, while the costs of housing may be low in comparison to more affluent parts of California, Merced County is one of the least affordable housing markets in the United States when its median income ($38,009 for a family in 2000) is also considered. As a result, only 33 percent of

[42] Merced County Economic Development Corporation. Local Employers, 2001.
[43] The Self-Sufficiency Standard varies depending on the location and size of the family.
[44] Wider Opportunities for Women. *The Self-Sufficiency Standard for California*. The self-sufficiency standard is the minimum wage needed to cover basic costs of housing, food, transportation, health care, and child care in the local area.
[45] California Employment Development Department. *Occupational Employment (2001) & Wage (2002) Data.*
[46] Ibid.
[47] Ibid.
[48] California Employment Development Department, Labor Market Information Division, County Snapshot, Merced County, 2001.

households could afford the cost of a home at the median price of $162,000 in 2002.[49] The addition of UC Merced in 2005 marks a wonderful economic opportunity for Merced County; however, the costs of housing in the city of Merced are expected to rise as a result of an increased demand for housing nearby the university.[50] The city of Merced already experiences a less than desirable vacancy rate—one percent.[51]

The fair market rate for renting a two-bedroom apartment is $608 per month, or $7,296 annually, and the hourly wage needed to afford a two-bedroom apartment is $24,320. A two-bedroom apartment at market rate would account for 52 percent of a single parent's household budget, if they earned a minimum wage—$6.75.[52]

The average yearly cost of child care for an infant in full-time center-based care in Merced County is currently estimated at $7,540 per year,[53] which is significantly higher than the price of a year's tuition at the UC Merced costs a California resident.[54] Full-time center-based child care for one infant and one toddler in Merced County costs over $12,567 annually.[55] For a family at median income ($38,009) these child care costs would be almost 33 percent of their total annual income.[56]

Low-income Families

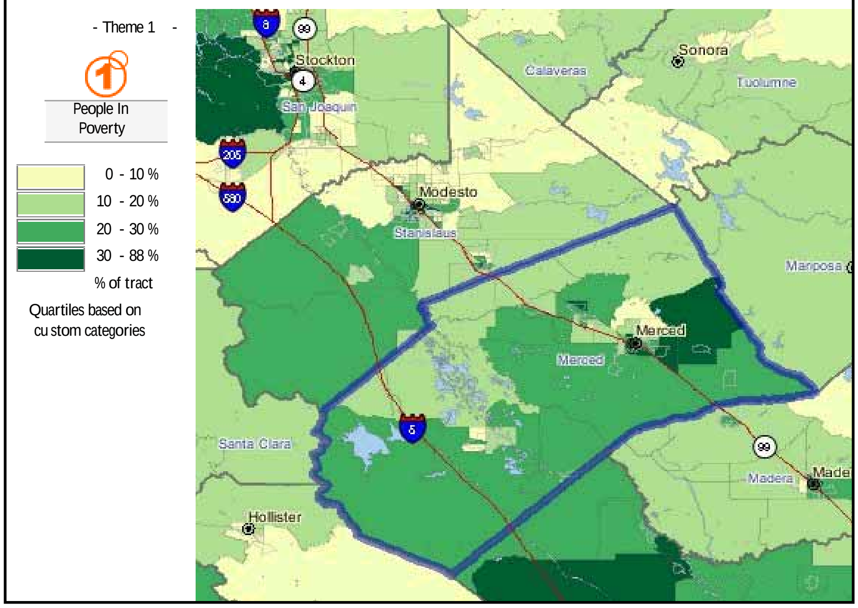
Almost one-fifth of all Merced County households earn an annual income of less than $15,000.

Almost one-fifth of all Merced County households earn an annual income of less than $15,000.[57] Of counties in California, Merced has the fourth-highest percentage of people living in poverty. In 1999, over 45,000 residents lived under the federal poverty line in Merced County—over one-fifth of the total population.[58] Of all areas in the county, the area east of the city of Merced, including Planada and La Grand communities, has the highest proportion of poverty in the county—over 30 percent of the population lives in poverty (see Figure 12).[59] In

[49] National Association of Home Builders. *Housing Opportunity Index: First Quarter 2002.* The Merced metro area (Merced County) ranks 178 out 191 metro areas in the country for housing affordability.
[50] The Greenlining Institute. *The Future of Housing in Merced: The Impact of the New University of California Campus & Ensuring the American Dream for All Mercedians, May 2003.*
[51] Ibid.
[52] National Low Income Housing Coalition. *Out of Reach: America's growing wage-rent disparity, 2002*. Hourly wage is based on the assumption that rent is 30% of total income.
[53] California Child Care Resource and Referral Network. *Regional Market Rate Survey for California Child Care Providers, June 2002.*
[54] University of California Office of Resource Management and Planning. *University of California Annual Fee Levels 2002-2003.*
[55] California Child Care Resource and Referral Network. *Regional Market Rate Survey for California Child Care Providers, June 2002*.
[56] U.S. Census Bureau. Census 2000.
[57] U.S. Census Bureau, Table DP-3. Profile of Selected Economic Characteristic: 2000.
[58] Ibid.
[59] Map produced by Neighborhood Knowledge California (NKCA - http://nkca.ucla.edu) © 2002 Regents of the University of California & the UCLA School of Public Policy and Social Research.

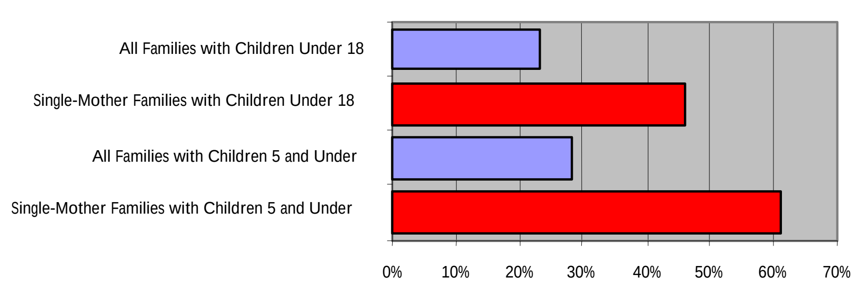
addition, South Dos Palos has the lowest of median family income of any area in the county—$23,365 in 1999.[60]

Figure 12
People in Poverty, Merced County, 2000



The percentage of families living under the federal poverty line increases for families with younger children. While 23 percent of families with children 18 and under are in poverty, over 28 percent of families with children five and under live below the poverty line.[61] Furthermore, the percentage of families living in poverty increases dramatically for single-mother families. Approximately 23 percent of families with children 18 and under live below the poverty line, but over 46 percent of single-mother families with children 18 and under live in poverty. Similarly, while 28 percent of all families with children five and under live below the poverty line, 61 percent of single-mother families with children five and under live in poverty (see Figure 13)[62]

Figure 13
Percentage of Merced County Families in Poverty,1999



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[60] U.S. Census Bureau. Census 2000.
[61] Ibid.

In 2001, 69 percent of Merced County school-age children were classified as low-income children, eligible for free or reduced-price meals.[63] The Livingston Union Elementary School District has the highest percentage of low-income children in Merced County. In 2000, almost 91 percent of students enrolled were classified as low-income.[64]

UC Merced

Many in the region believe that the introduction of UC Merced in the fall of 2005 will have profound effects on the economic and demographic profile of the county. In fact, child care leaders are already planning for the increased need in care from parents attending the university and faculty and staff employed by the university. An informal survey of faculty and staff has been conducted by UC Merced to assess child care needs.[65] Short-term demographic effects are expected to be minimal.[66] [67] However, by 2025, UC Merced is expected to have 25,000 students enrolled and employ 1,420 faculty members, 4,828 staff, and 10,872 dependents.[68]

While the short-term demographic and economic impacts of UC Merced will be minimal, the university has the potential to act as a catalyst for the diversification of the county's economy. Child care is a critical component of any comprehensive educational system and should therefore be included in the decision-making process.

UC Merced planners expect Atwater to carry the brunt of the housing burden expected as the university grows because Merced has a less-than desirable rental vacancy rate—one percent.[69] This may have a significant impact on commuters between the two cities, and housing prices in Merced may rise when students compete with local residents for housing near the campus.

While UC Merced officials believe that negative housing and quality of life effects stemming from UC Merced will be minimal, the Greenlining Institute foresees the following implications for the city of Merced:

- Population growth will increase the need for housing in the city and necessitate faster construction rates in the city of Merced.

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[62] US Census Bureau, Table DP-3. Profile of Selected Economic Characteristic: 2000.
[63] California Department of Education, DataQuest. *The State Of Our Children, 2000, County Data Table.* Low-income children live in households with a total income at or below 185 percent of the poverty level (approximately $17,650 for a family of four in 2001).
[64] Merced County Children and Families Commission (First 5). *Secondary Data Report.*
[65] Information gathered from an interview with Alfred Day, Associate Director of University Relations, UC Merced, by the National Economic Development & Law Center, 2003.
[66] Only 1,000 students are expected to attend the university for the 2004/2005 school year and many of these students will be commuting from the area. Additionally, only 500 faculty and staff will be employed.
[67] UC Merced. *Long Range Development Plan: Final Environmental Impact Report, Volume One, SCH No. 2001021605, January, 2002.*
[68] Ibid.
[69] Ibid.

- UC Merced housing needs will be primarily for multi-family and low-income designated units, which are currently scarce in Merced and have faced challenges to construction.

UC Merced presents an opportunity for "the Merced region…to brand and position itself as a 21st century business location."[70] Without question the introduction of UC Merced will certainly create jobs and hopefully diversify the regional economy by improving the skills of the current and future workforce, which will ultimately attract new industries that pay higher wages. However, the economic benefits of its introduction will likely vary depending on how strategically the county plans for the university. The university will improve the county's overall education system; however, unless continued investments are made in the early care and education programs and the K-12 school system, many of the benefits this county hopes to realize will be lost.

Implications for Child Care

Merced County's shifting economic and demographic landscape creates a challenge for its child care industry. There is a clear and growing need for affordable, accessible child care. Changing and evolving economic and social conditions – a greater number of low-paying jobs, natural population increase, high youth dependency ratio, poor housing affordability, and an increase in female labor participation – fuel continued growth in demand for child care programs. These conditions have the following implications for the county's child care industry:

Population

- Merced 's population continues to grow, creating demand for the entire education system, including early care and education programs.
- Because of high population growth among young children, the licensed child care industry experiences aggressive demand for infant child care.

Diversity

- The increasing proportion of Hispanics/Latinos and other racial/ethnic groups in Merced County requires more culturally appropriate child care services.
- Due to the rising proportion of children who are Hispanic/Latino, there is an increasing demand for Spanish-speaking child care professionals who can communicate to the children and their parents.

Transportation

- Because almost 25 percent of the workforce commutes to areas outside of Merced County, there is a demand for non-traditional hours child care.
- Child care providers that provide working parents with transportation options are needed to accommodate working families who spend an increasing amount of time getting to and from work and child care.

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70 Chabin Concepts Team. *High Tech and Cultural Assessment Report: Phase II, Merced County Economic Development Strategic Planning Project, July-December 2002.*

- Because the majority of the live in unincorporated areas that may not have adequate public transportation, strategic transportation planning that incorporates child care is needed to ensure that all working parents have access to economic and educational opportunities in the area.

Labor Market

- Because the percentage of females who participate in the labor force has been steadily growing, there is a growing need for child care services in the county.
- A lack of an abundant supply of high-skilled workers in Merced County limits the county's ability to attract businesses in industries that, by paying higher wages, support the economic prosperity of the county. Affordable, accessible and quality child care is needed to attract workers with more skills to the area.
- Increased investment in quality improvement initiatives for early care and education programs is necessary to prepare the future workforce for jobs in high-skilled technology and professional service occupations.
- As economic development planners create strategies and coordinated job training in order to improve the human capital within the county, they should consider that parents wishing to participate in these activities will need affordable child care.
- With the county's largest growth industries being in service and retail, there is a greater demand for child care during hours outside of the traditional 8am – 6pm child care schedule. In addition, because of the low to medium wages in the service and retail industries, many employees cannot afford child care.
- High unemployment and low levels of labor force participation suggest that a lack of affordable, accessible, and quality child care acts as a barrier to those wishing to participate in the labor force and those trying to find work.

Cost of Living

- Merced County's relatively high cost of living in comparison to median income threatens the stability and continued growth of the child care industry because low-wage workers cannot afford to pay for the full costs of child care.
- With a growing proportion of the family income going to basic needs, such as housing and child care, the quality of life in Merced County is increasingly difficult to maintain, particularly for low- and middle-income families.

Low Income Families

- Because of the high number of low-income children in Merced County, child care programs experience an aggressive demand for subsidized slots.
- The implementation of the state's new CalWORKs requirements contributes to the increasing need for subsidized child care.
- Families timing out of CalWORKs participation and the projected increase in the proportion of low-wage jobs in Merced County's industries indicate a continued

need for strategies to make child care affordable for low-income working families.

- The city of Merced, areas surrounding the city to the east, and South Dos Palos area have the highest concentrations of people living below the poverty line. Therefore, planning for the development of subsidized child care programs should target these areas for potential development.

UC Merced

- The opening of UC Merced in 2005 presents a wonderful opportunity for the economic development of the region. However, strategic planning that includes child care as part of the traditional educational system is needed to fully realize the economic benefits that the university has to offer.

Conclusion

The county needs to expand its supply of affordable, accessible, and quality child care to provide an adequate social infrastructure that enables more families and single parents to go to work, thus increasing the county's supply of labor. This added workforce is essential to satisfy production of the community's needed goods and services.

Section 3
Economic Profile of the Child Care Industry

To assess the economic characteristics of the child care industry in Merced County, this section quantifies:

- The size of the industry, as reflected in output or gross receipts
- The total direct employment of the industry
- The capture of federal and state monies designated for child care

It should be emphasized that the majority of this analysis covers the licensed child care industry, which excludes a significant portion of legally unlicensed, informal child care services. Thus, the analyses in this report underestimate the full impact of child care on Merced County's economy.

Measuring Child Care Industry Output or Gross Receipts

Output, also known as gross receipts, measures the size of an industry in terms of the overall value of the goods and services produced by that industry over the course of a given year. For child care services, *gross receipts are equal to the total amount of dollars flowing into the sector in the form of payments for care, including both parent fees and private and public subsidies.*

Economists typically analyze industries and their impacts based on state and national surveys of businesses or employers. Many surveys use an industrial classification system that recognizes "child day care services," but underestimate the size of the child care industry because of its diversity of establishments (i.e. self-employed individuals, programs run by religious or social organizations, and both not-for-profit and for-profit small businesses and chains).[71]

This study uses a more accurate method of measuring the size of the child care industry, as it primarily relies upon data from the Children's Services Network of Merced County, Inc, Merced County's child care resource and referral agency (R&R). This agency is charged by the state to collect comprehensive countywide data on the availability and use of most licensed child care programs. Local enrollment and budgetary information for California Child Development Centers, Pre-schools for Children with Special Needs, other governmental child care programs, and Head Start was gathered by directly interviewing directors from each program.

Gross receipts for family child care homes and child care centers were calculated by multiplying the number of children enrolled in each type of care by the average cost of care. To ensure that gross receipts were accurately captured, cost and enrollment information were broken down by type of care (family child care homes and child care

[71] The North American Industry Classification System (NAICS) is the most used classification system, separating industries into 20 major sectors, and 1,196 industry subsectors. "Child Day Care Services" is NAICS code 624410.

centers), age of child (infant, toddler, pre-school age, and school age), and length of care (part-/full-time). Average hourly, daily, and weekly rates from the Regional Market Rate Survey for California Child Care Providers, 2002 were used. The Merced County R&R database does not include capacity or enrollment information on Head Start, California Child Development Programs (state pre-schools and general child development centers), Pre-schools for Children with Special Needs, and other governmental child care programs; therefore, total government expenditure for administrative and operational costs were used to estimate gross receipts for these programs (see Appendix A, for more details).

There are approximately 480 licensed child care facilities in Merced County that care for approximately 5,718 children[72]:

- 418 family child care homes;
- 18 child care centers;
- 23 Head Start centers;
- 15 California Child Development Centers (state pre-schools and general child development centers);
- 4 Pre-schools for Children with Special Needs; and
- 2 other governmental child care programs

The estimated annual gross receipts for licensed child care in Merced County total $33.5 million.

Based on the methodology briefly described above, the estimated value of annual gross receipts for licensed child care in Merced County is $33.5 million ($11.8 million for family child care homes, $4.7 million for center-based care, $9.5 million for Head Start programs, $5.6 million for California Child Development Centers, $1.7 million for Pre-schools for Children with Special Needs, and $185,000 for other governmental programs).

Merced County's licensed child care industry generates more gross receipts than clothing stores.

Comparing estimates contained in this report with data from the most recent Bureau of Labor Statistics' ES-202 Covered Employees and Wages 2001 Survey shows how much the total impact of the licensed child care industry is underestimated. Adjusting dollar values to 2003 for comparison, the survey estimates that gross receipts for child care in Merced County are $11.1 million, only 33 percent of those derived from comprehensive local data.[73]

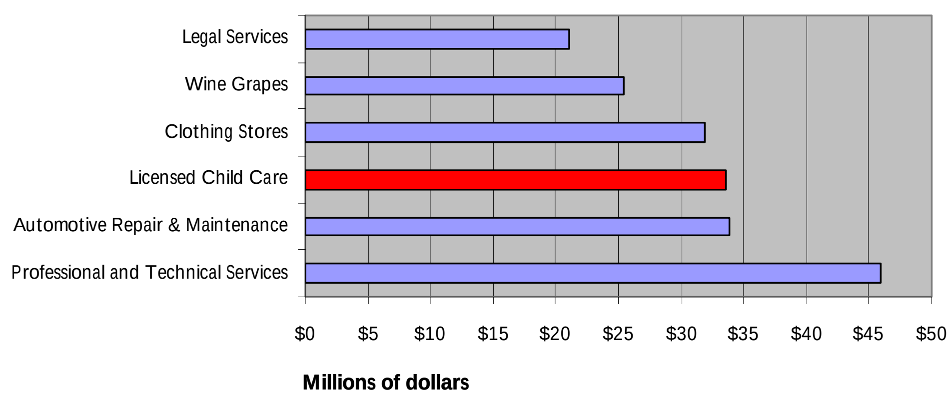
[72] Current survey results from Children's Services Network of Merced County, Inc and individual interviews from program directors.

[73] Because The Economic Census (1997) did not disclose "Child Day Care Services" gross receipts estimates for Merced County, gross receipts estimates were derived from the Bureau of Labor Statistics ES-202 Covered Employees and Wages 2001 Survey. Employment estimates were run through IMPLAN to estimate total gross receipts. The ES-202 Covered Employees and Wages 2001 Survey is mailed to a list based on U.S. businesses with employer identification numbers (EIN), and excludes private households and governments.

Gross Receipts Compared with Other Industries

Matching the child care industry's gross receipts with other industries in the county puts the size of the child care industry into context. Licensed child care is larger than the following major industries: clothing stores ($31.9 million), and wine grapes ($25.4 million; see Figure 1).[74] Child care is also considerably larger than the legal services industry in the county ($21.0 million; see Figure 1) and similar in size to the automobile repair and maintenance industry ($33.8 million) and the professional services industry (45.9 million; see Figure 1).[75]

Figure 1
Gross Receipts Comparisons between Merced County Industries, in millions, 2003



Gross receipts for non-agricultural industries are from the 1997 Economic Census and gross receipts for agricultural industries are from the Merced County Department of Agriculture's Merced County 2001 Crop Report. All values have been adjusted to 2003. Child care gross receipts are calculated using methodology described in Appendix A.

Direct Employment

Direct employment for licensed child care in 2003 in Merced County is estimated to be 1,144 full-time equivalent jobs (FTEs). This figure is derived from the actual child care inventory and the number of children in different types of care, assuming compliance with minimum staffing requirements imposed by licensing laws for different age groups, and minimal support staffing in centers serving more than 80 children at a time. Employment estimates for Head Start, California Child Development Centers, Pre-schools for Children with Special Needs, and other governmental programs were derived from direct interviews with the director of each program (please see Appendix A for a detailed methodology). The total number of people working in the child care industry is likely higher, because so many child care

The child care industry directly supports more than 1,144 full-time equivalent

[74] Merced County Department of Agriculture. *Merced County 2001 Crop Report.* Gross receipts value was updated to 2003.

[75] U.S. Census Bureau. Economic Census (1997). All gross receipts values are updated to 2003 levels.

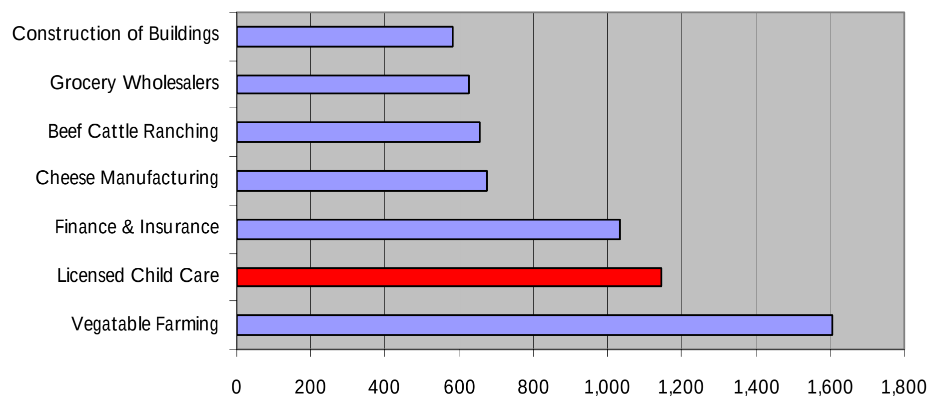
professionals work part-time. In addition, the estimate is calculated based on the minimum staff-child ratio required by state law. Some operators choose to maintain higher ratios in order to improve program quality or to achieve specific quality goals that increase their business' competitiveness.

An economic analysis of the indirect and induced effects of the child care industry on the Merced County's economy is included in Appendix B. Many informed observers have indicated that these effects are not part of a conservative approach at conducting economic impact reports and thus these analyses are not included in the main body of this report.[76]

Direct Employment Compared with Other Industries

The number of FTEs in child care is similar to the number of employees working in vegetable farming (1,604 FTEs; see Figure 2).[77] There are more FTEs in child care in Merced County than there are in the finance and insurance industry, the cheese manufacturing industry, beef and cattle ranching, grocery wholesalers, and the building construction industry.[78]

Figure 2
Employment Comparisons between Merced County Industries, 2003



All employment information for industries is from the ES-202 Covered Employees and Wages 2001 Survey, adjusted to 2003, except for licensed child care. Child care direct employment is calculated using methodology described in Appendix A.

Capture of Federal and State Subsidies

Federal and state governments provide child care subsidies that help poor families participate in the workforce, training, or educational activities. These subsidies also fund

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76 Personal communication, Art Rolnick, Director of Research, Federal Reserve Bank of Minneapolis, 2003.

77 Data is from the 2001 Merced County Covered Employment and Wages (ES-202) survey, adjusted to 2003 labor force levels for comparison.

78 Ibid.

quality improvement for child care programs. Subsidies are provided in three basic forms: direct contracts with child care centers based on the number of low-income children they serve and the number of days of care provided, an "Alternative Payment" (AP) program which enables families to choose their own licensed or license-exempt child care provider, and direct payments to providers to improve child care quality.

Another significant area of public funding is the comprehensive child development programs in Head Start. Head Start serves children ages zero to five, pregnant women, and their families in child-focused programs designed to increase school readiness of young children in low-income families.[79] Nationally, programs include school-readiness programs for four-year-old children, Early Head Start is specifically geared towards for infants,[80] and Migrant Head Start to the children of migrant or seasonal workers (typically agricultural workers).[81]

Child care subsidies, both at the federal and state levels, increased substantially following sweeping reforms to the federal welfare system in 1996 (the Personal Responsibility and Work Opportunities Act).

California created its own version of welfare to comply with the new federal system, called CalWORKs (California Work Opportunity and Responsibility to Kids). Under CalWORKs, child care assistance expanded.

CalWORKs replaced separate welfare-related child care systems with an integrated three-stage child care system, coordinated by two state agencies. "Stage One" child care services are administered by the California Department of Social Services (CDSS) through county welfare departments. Stages Two and Three child care services are administered by local agencies under contract with the California

CalWORKs Child Care at a Glance

Stage One: CalWORKs families become eligible when the parent starts work or work-related activities and there is no other adult family member to provide care. The child's age, the cost of care, and the provider chosen sometimes limits eligibility. Centers, licensed family day care, or license-exempt providers provide care based on the parent's choice. Families who cannot transfer to Stage Two continue to receive subsidies through Stage One under Stage Two rules and limits.

Stage Two: Once work activity is stable or parents transition off aid, parents or caretakers are eligible for child care subsidies for up to two years from the date they leave assistance if they are engaged in an approved activity, have a need for child care to continue this activity, and meet all other child care eligibility factors.

Stage Three: When a funded space is available, a family whose income is at or below 75% of the state median income, and who have exhausted their 24-month maximum for Stage Two care, enters Stage Three.

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[79] US Department of Health and Human Services, Administration for Children, Youth and Families; Head Start website at http://www2.acf.dhhs.gov/programs/hsb/about/index.htm.

[80] Merced County does not currently have an Early Head Start program, though the county has applied for Early Head Start grants in the past.

[81] Subsidy information for Migrant Head Start in Merced County was not available at the time of this report.

Department of Education (CDE). Funding for each of the three stages of child care assistance is determined annually through the budget process.

Child care subsidies benefit Merced County in several ways. First, since they are tied to job training and work activities, they are an important part of workforce development and enable many people (who would otherwise have to look after their own children or leave them in an unsafe setting, such as self-care) to join the labor force. Second, they bring in new dollars to the local economy, which then circulate through various service sectors and stimulate other economic activity.

Some federal funds for child care include a requirement that four percent be used to improve the quality of child care. These federal dollars are matched by state funds. This money goes to support the education and training of child care professionals, capacity building, resource and referral, and a number of other activities designed to build and sustain the capacity of high-quality child care and education.

In 2003, Merced County drew down roughly $24.8 million[82] in child care-related subsidies (see Table 1 for breakdown).

Table 1
Sources of Subsidies for Child Care
Merced County, 2003

Vouchers	
CalWORKs and Alternative Payments[83]	$11.1 million
Direct Services	
California Child Development Centers (state pre-schools & general child development centers)[84]	$1.3 million
Head Start[85]	$8.9 million
USDA Child Care Food Program[86]	$1.7 million
Pre-schools for Children with Special Needs[87]	$1.7 million
Other Governmental Child Care Programs[88]	$186,000
Total:	**$24.8 million**

Some of these funds were distributed through licensed child care facilities; however, a significant portion[89] of child care vouchers were redeemed by license-exempt child care providers.

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[82] Not all programs had FY 2002-2003 budget information available. Therefore, this is a total annual subsidy estimate that uses budget amounts from different years.
[83] FY 2001-2002. Merced County Children Services Network.
[84] FY 2003-2004 State Pre-school/Child Development Budget Plan.
[85] FY 2003-2004 Head Start Budget Plan, Merced County. This figure does not include Migrant Head Start funding, which was not available at the time of this report.
[86] FY 2000-2001 County Profile for California Child Care Food Program, Merced County.
[87] Merced County Office of Education, Special Education. FY 2002-2003 Budget for Pre-schools for Children with Special Needs.
[88] FY 2003-2004 State Pre-school/Child Development Budget Plan.
[89] The Merced County Children's Network estimates that one half of CalWORKS Stages 1, 2, 3, and GAPP/FAPP vouchers are used for Trustline/license-exempt child care.

Because lower-wage occupations lead much of Merced County's projected job growth, the availability of federal and state child care subsidies play an increasingly important role in supporting local economic development. Targeted local investments in child care helps the county garner a larger share of child care subsidies and, in turn, maximize the local economic effects of those federal and state funds.

Section Summary

The diversity of the child care system is a vital feature in its ability to meet the needs of Merced County's families, but makes it difficult to analyze and measure. However, using data maintained by organizations charged by the State of California with tracking the supply, cost and licensure of child care facilities, an estimate of its composite size can be derived. This overall size, measured in terms of gross receipts and employment, is comparable to many other more easily recognizable industries in Merced County, such as vegetable farming and the finance and insurance industry.

The substantial size of the child care industry means that it not only supports the economy by allowing parents to work, but also contributes to its vitality by employing significant numbers of workers. The child care field also supports the economy by drawing down significant levels of federal funds available to support poor families. These families represent a substantial portion of the existing and potential workforce, and are vital to the continued growth of the economy.

Section 4
Child Care, Business, & Economic Output

The child care industry in Merced County supports other businesses by increasing employee participation and productivity. A healthy child care industry helps businesses attract and retain the best employees, and quality, stable child care reduces turnover and absenteeism and increases loyalty and morale. These effects have a direct impact on the bottom line for businesses of all sizes.

In addition, child care, like other economic infrastructures, builds the local economy and improves the quality of life in the county. Child care reduces crime, enables individuals and families to live better and more fully, and increases public dollars available for enhanced services for residents.

Public and private investments in the child care infrastructure contribute to Merced County's overall productivity and economic competitiveness by:

- Expanding local labor force participation by enabling people to work
- Contributing to increased economic output
- Increasing productivity and retention of employees in businesses in the county
- Ensuring future public savings on social needs by lowering drop-out and crime rates, and decreasing special education and welfare costs
- Cultivating Merced County's future workforce by improving the cognitive skills and emotional well-being of children and ensuring that they enter the K-12 school system ready to learn

The Impact of Child Care on Economic Competitiveness

Investing in the child care infrastructure of Merced County has direct, positive benefits for the county's overall economic competitiveness. Like transportation, education, public works, and affordable housing, child care is a necessary and vital part of the economic infrastructure. Just as a highway system enables Merced County to bring in a skilled workforce to support its local industries, a healthy child care industry helps businesses attract and retain the best employees and makes Merced County a desirable place for businesses wishing to start, expand, or relocate their operations. In the same way that local government and the private sector collaborate to increase the availability of affordable housing in order to attract a skilled workforce, they also benefit from investing together in the child care infrastructure.

Increasing Labor Force Participation

Stable, affordable, high-quality child care allows parents to continue to work and advance in their careers after they have started a family. Quality infant care enables parents to return to work more quickly and productively following the birth of a child.[90] When employees leave because of child care problems, companies lose human capital and incur turnover costs. Reducing turnover has a direct impact on an organization's

[90] As discussed in Section 2, Merced County experiences a shortage of quality licensed infant child care.

bottom line; turnover is estimated to cost 1.5 times the annual salary of a salaried employee, and .75 times the annual wage income of an hourly employee.[91] This loss of human capital is preventable and there are cost-effective solutions to ensure that employees' child care needs are met.

In a survey of employees conducted by Merk, one the world's largest human resources consulting companies, caring for dependents was one of the top six employee considerations concerning benefits.

By the year 2010, it is estimated that 85 percent of the national labor force will consist of parents.[92] These changing workforce demographics, as well as current economic trends, will require businesses to focus on child care benefits for their employees. In "Using Benefits to Attract and Retain Employees," Merk, one of the world's largest human resources consulting companies, recommends that businesses hoping to reduce turnover should adopt benefits packages that address the employee's personal needs. In a survey of employees, Merk found that caring for dependents was one of the top six employee considerations concerning benefits. However, child care benefits were not considered by employers as being essential.[93] Businesses can avoid this disconnect by offering benefits that focus on their employees' needs and will reduce costs stemming from absenteeism, low productivity, and turnover.

Strong benefits packages, which may include child care and/or a public commitment to work-life issues, increase loyalty and reduce the likelihood that employees will leave the company, either to stay home or to work for another company. In a survey, 19 percent of employees at companies with child care programs indicated that they have turned down another job rather than lose their work-site child care.[94]

As demonstrated in section two, economic growth in Merced County is limited by low levels of labor force participation. Businesses and communities interested in taking advantage of federal subsidies available for hiring former welfare recipients have a special stake in ensuring the availability of affordable licensed child care. A lack of affordable and suitable child care is a deterrent for many parents who want to enter the workforce. In a national survey of the child care needs of working parents, 43 percent of parents indicate that a lack of acceptable child care

Companies may choose from a variety of child care benefits that they can offer their employees. Smaller companies may offer Dependent Care Flexible Spending Accounts (FSAs) and flexible time options. Larger companies may offer off-site referral services, company sponsored on/off site child care centers, child care subsidies, after-school programs, and emergency or sick child care.

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91 Phillips, J. Douglas (Senior Director of Corporate Planning, Merck & Co. Inc.), "The Price Tag on Turnover," *Personnel Journal*, December 1990, pp. 58-61.
92 U.S. Census Bureau, *Current Population Reports*, P20-514, 1999.
93 Merk. *Using Benefits to Attract and Retain Employees*, 1999. As cited on www.probenefits.com.
94 Simmons College, *Benefits of Work-Site Child Care*, 1997, as cited by Bright Horizons Family Solutions.

prevents either them or their spouse from taking a job they want.[95] In numerous studies tracking the success of welfare-to-work programs, child care and transportation were identified as the top two barriers for welfare clients in obtaining and maintaining jobs. In county transportation plans across California, getting to and from child care facilities and children's schools was listed as a major transportation barrier to work.[96]

In a survey of TANF recipients by the Center for Public Policy at California State University Stanislaus, two-fifths of TANF recipients reported that child care was a factor that limited their sustained employment. In addition, 22 percent of human service providers in the county reported that affordable child care was the top challenge facing welfare to work initiatives, and over 49 percent believed child care was one of the top ten factors impeding welfare participants from finding work.

Local analyses also demonstrate that child care is a major obstacle for the sustained employment of residents in Merced County. In 1999, the Center for Public Policy Studies at California State University at Stanislaus conducted a survey of TANF recipients in Merced County. Of those surveyed, nearly two-fifths reported that child care was a factor that limited their sustained employment. Furthermore, the Center interviewed 124 human service providers in the county, of which 22 percent believed that a lack of affordable child care was the top challenge facing welfare to work initiatives.[97] Also, almost 50 percent of the providers interviewed placed child care in the top ten factors that impede welfare participants from finding jobs.[98]

Choosing child care is a complicated process for many working parents, and involves factors such as quality, availability and affordability. In some cases, child care is used because a parent chooses to pursue a profession or supplement the household income, or because it is an economic necessity. In the latter case, affordable child care is vital for a family's economic self-sufficiency. In either case, the provision of child care services increases the available labor pool. While licensed child care is not necessary for all parents who choose to work, it is the only answer for some. The supply of licensed child care is a crucial variable in the capacity of a local area to experience economic growth.

[95] The Harris Poll survey, January 14-18 1998, cited in *Polls Indicate Widespread Support for Investments in Child Care*, the Children's Defense Fund, www.childrensdefense.org/cc_polls.htm.

[96] *Regional welfare-to-work transportation plan.* Prepared by Moore, Iacofano, Goltsman, Inc. Oakland, CA: Metropolitan Transportation Commission, 2001.

[97] Center for Public Policy Studies at California State University at Stanislaus. *Welfare and Work in Merced County: Perspectives and Assessments, June 2000.*

[98] Center for Public Policy Studies at California State University at Stanislaus. *Strategic Choices: Creating Opportunity in Merced County, 1999.*

Economic Output

Approximately 57 percent of all families with children 13 and under in the county are families in which all parent are working. These working parents account for 25 percent of the county's total labor force.

By enabling them to work, child care makes it possible for parents to contribute to the economy. There are over 13,000 families with children 13 and under in which all parents in the family participate in the labor force. These families constitute 57 percent of all of Merced County's families with children 13 and under, and these parents account for 25 percent of Merced County's labor force. [99] [100]

In Merced County, working parents with children in licensed child care programs earn over $75 million per year.

Using previous estimates that center and family-based licensed care account for 42 percent of care provided to children ages five and under and 22 percent of school-aged children,[101] there are over 4,000 working parents in the county with children 13 and under who use licensed child care who might otherwise have stayed home to care for children.[102] In total, these parents in Merced County using licensed child care (all single working parents and one parent in a dual-earning household) earn over $75 million annually (see Table 1).[103]

Table 1
The Economic Output of
Working Parents Using Licensed Child Care, 2002

Family Type	**Labor income of working parents using licensed child care**
Dual-parent families w/ children 13 and under in which both parents are in the workforce	$48.4 million
Single-parent families with children 13 and under in which the parent is in the workforce.	$26.6 million
Total	**$75.0 million**

[99] There are a total of 13,279 families with children 0 to 13, including 8,643 dual-parent families, and 4,636 single-parent families.
[100] U.S. Census Bureau. Census 2000.
[101] Bolshum, N., Gates, G., Schmidt, S., Sonenstein, F. *Primary Child Care Arrangements of Employed Parents Findings from the 1999 National Survey of America's Families*. From The New Federalism: National Survey of America's Families. Washington, D.C.: The Urban Institute, May 2002. Licensed child care usage rates for children ages 6 to 12 were used because there were no available usage rates for children ages 6 to 13.
[102] Only one parent was included in dual-parent families because we assumed that if this parent were not working they could stay home and care for the children.
[103] Based on Census 2000 estimates for single-father and single-mother earnings, and the lower of male/female single householder age 15-64 as a proxy for one parent's earnings in a dual-parent household, adjusted to 2002 dollar values.

Increasing Productivity

Absenteeism in 2002 cost an average of $60,000 per year for small companies and more than $3.6 million for large companies.

In addition to enabling parents to enter the workforce and contribute to Merced County's economy, quality child care also increases the productivity of working parents. Licensed child care contributes to a stable and productive workforce by lowering absenteeism and turnover rates. Absenteeism in 2002 cost an average of $60,000 for small companies and more than $3.6 million for large companies, according to a national survey of human resource executives.[104] Nationwide, it is estimated that worker absenteeism due directly to child care problems cost U.S. businesses $3 billion per year.[105]

In a survey conducted by Parents Magazine, working mothers reported missing two full days and six partial days every six months due to child care problems, and working fathers reported missing one full day and four partial days every six months.[106] The same survey highlights the lack of security many parents have in their child care arrangements. Only 40 percent of families surveyed were confident that their current child care arrangements would be in place six months from the date of the survey. This instability translates directly to reduced productivity in the workplace. In a survey of parents, 52 percent reported that the problems of finding child care affected their ability to do their job well.[107]

A study by the Families and Work Institute found that two-thirds of employers report that benefits of child care programs exceed costs or that the programs are cost-neutral

Increasing productivity by providing child care benefits saves businesses money. A study by the Families and Work Institute found that two-thirds of employers report that benefits of child care programs exceed costs or that the programs are cost-neutral. Numerous other studies point to the importance of child care in retaining employees and improving productivity. Employees using a Nations Bank child care subsidy program had one third the turnover of non-participants in similar jobs.[108] American Express Financial Advisors found that a newly created back-up child care service recovered 105 days in worker productivity.[109] These policies have become increasingly popular in recent years due to the growing crisis in available, affordable child care. As Paul Orfalea, the founder of Kinko's, said, "Wise business

[104] Harris Interactive. *CCH Unscheduled Absence Survey, 2002.*
[105] As cited in *Building Blocks: A Legislator's Guide to Child Care Policy*, National Conference of State Legislatures, 1997, p. vii.
[106] Parents Magazine survey, August 1997, cited by the Children's Defense Fund, *Polls Indicate Widespread Support For Investments In Child Care,* www.childrensdefense.org/cc_polls.htm.
[107] Parents Magazine survey, August 1997, cited by the Children's Defense Fund, *Polls Indicate Widespread Support For Investments In Child Care,* www.childrensdefense.org/cc_polls.htm.
[108] Sandra Burud, citing Rodgers and Associates study in *Evidence That Child Care and Work-Life Initiatives Will Impact Business Goals.* Claremont Graduate University, 1999.
[109] Sandra Burud, Evidence That Child Care and Work-Life Initiatives Will Impact Business Goals. Claremont Graduate University, 1999.

leaders know that their biggest asset is morale. In a tight economy, it's all the more important to strengthen your business and take care of your people.[110]

> **"Wise business leaders know that their biggest asset is morale. In a tight economy, it's all the more important to strengthen your business and take care of your people."**
>
> ***Paul Orfalea- Founder of Kinkos***

Some Merced County companies and companies in neighboring counties with employees who reside in Merced County recognize this need and support their employees. These businesses implement policies such as: providing flexible work schedules and work sites, offering pre-tax programs to pay for childcare and paid family sick leave, covering child care for employees, and allowing the use of vacation time for attending children's school or child care program activities.

> ***Example*: *Mercy Medical Center*, *Foster Farms*, *the Merced County Office of Education*, and many of the larger school districts in the county offer cost effective child care assistance to their employees through flexible spending accounts (FSAs), which allow their employees to significantly increase their disposable income without increasing the companies' salary expenses.**

The Mercy Medical Center, located in the city of Merced, offers a child care benefit through a flexible spending account (FSA). Employees may place up to $5,000 in pre-tax funds into the FSA, which they may then spend on federally approved necessities, such as child care. By setting up a FSA, employers save their employees between $1,000 and $2,500 per year. In addition to providing a FSA to their employees, Foster Farms contributed to the facilities financing of the new child care center in Livingston. This contribution was made due to the realization that affordable, available, and quality child care was to important to improve the productivity of their current and future workforce.

Enabling Workforce Development

The *Merced County Workforce Assessment Report* recognizes the significance of workforce development for increased economic growth and diversification in the county, "improving the quality of the workforce can break the region's historic cycle of high unemployment and low paying jobs."[111] Child care is a critical component of workforce development and is needed during various activities, such as education and training, which prepare individuals to enter the workforce.

Because California recognizes the importance of child care for working parents needing training to achieve economic self-sufficiency, community colleges across the state receive government funds to support the child care needs of their students. Under the Merced College CalWORKs Child Care Program, low-income parents are eligible for child care subsidies as long as they are TANF recipients and enrolled in an education plan at Merced College. The program is funded with $300,000 annually from the

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[110] Paul Orfalea. Interview, the National Economic Development and Law Center, 2002.

[111] Chabin Concepts Team. *Merced County Workforce Assessment Report: Phase II, Merced County Economic Development Strategic Planning Project, July-December 2002.*

California Community Chancellor's Office to meet the child care needs of Merced College's students. Of this money, 40 percent is used to fund child care slots at the on-site Child Care Development Center at Merced College. This center currently serves an estimated 40 children in part- and full-time care, and supports the education of 24 students. The remaining 60 percent of funds are spent on vouchers that students may use for licensed or legally unlicensed off-site child care. On average, the vouchers support 60 parents and 80 children per year.[112]

> ***Example*: In order to assist low income working families in accessing the educational- and work-skills they need to become economically self-sufficient, the Merced College CalWORKs Child Care Program spends $300,000 annually to provide on- and off-site child care subsidies for students who are TANF recipients.**

Additionally, UC Merced offers the region an excellent chance to diversify its economy by assisting in the creation of a skilled labor pool and transferring technology skills and practices to new and existing businesses in the area.[113] However, if child care is not considered, many parents will not have access to this institution and the educational and technical skills it will provide. Currently, UC Merced representatives are conducting an informal survey to assess the child care needs of their students, faculty, and staff.

Merced County's Workforce Investment Board assists low-income parents who are trying to add new skills. Each year they invest an average of $1,392 per student (1,512 students in 2001) for transportation, child care, and other items that assist parents in accessing training programs.[114]

Also, a study of the impact of high-quality child care programs tracked the performance of parents in addition to the children themselves. The study found that mothers whose children participated in a high-quality program achieved higher educational and employment status than similar mothers whose children were not in the high-quality program.[115]

Developing the Future Workforce

In addition to supporting working parents, child care is a crucial component of developing the future workforce. Although recent research demonstrates the importance of child care for school readiness and the importance of school readiness on academic achievement and later success in adulthood, the concept of cultivating the future workforce in the child care classrooms of America has not yet been well-established. For example, *Merced County's Workforce Assessment* outlines a workforce development "system" that highlights the importance of investing in a "Lifelong Learning

[112] Marie Bryan Thomas. Interview, the National Economic Development and Law Center, 2003.
[113] Chabin Concepts Team. *High-Tech and Cultural Assessment Report: Phase II Merced County Economic Development Planning Strategic Planning Project, 2002.*
[114] In 2001, the Workforce Investment Board served 1,512 people in Merced County.
[115] Discussion of results of *The Abecedarian Study*, as cited on www.fpg.unc.edu/~abc/.

System that links K-12 schools, Merced College, vocational education programs, and now the new UC campus," but excludes early care and education.[116]

High-quality child care programs improve children's readiness to learn once they enter the public school system, but these child development programs are not always accessible locally or nationally. Consequently, many children enter school with various barriers to learning. Polls administered in research journals about early childhood document this: 46 percent of kindergarten teachers report that half of their class or more have specific problems with entry into kindergarten (such as lack of academic skills and difficulty following directions).[117] Conversely, a number of large-scale, long-term studies document that children in high quality child care are better able to learn and thrive during traditional school-age years and into adulthood.

An estimated 46 percent of kindergarten teachers report that half of their class or more have specific problems when they enter kindergarten

Children in high-quality child care are better prepared academically and socio-emotionally to enter kindergarten, and subsequently have a greater capacity to learn in the traditional education system. A study by the University of North Carolina found that children in high quality child care, showed greater language development, mathematical ability, thinking and attention skills, and fewer behavioral problems in kindergarten than children in informal care settings.[118] Another well-known pre-school study, known as the Abecedarian Project, concluded that children who participated in an early intervention program delivering high-quality child care had higher cognitive test scores than their peers, from toddler years through elementary school.[119]

Children in high-quality child care are better prepared academically and socio-emotionally to enter kindergarten, and subsequently have more capacity to learn in the traditional school system.

Reducing Future Public Spending

Not only does high-quality child care better a child's chance of success in kindergarten and elementary school, it also significantly improves a child's chance of thriving as an adult. Children in high-quality child care become more productive members of the labor force and less likely to be require public spending, both in basic needs subsidies and in criminal justice costs. Long-term studies following children from pre-school through their adult years document the effects of high-quality child care in adulthood. A study of low-income children in Chicago found significant differences at the end of high school between children in a high-quality child care program and their peers who were

[116] Chabin Concepts Team. *Merced County Workforce Assessment:: Phase II Merced County Strategic Planning Project, July-December 2002.*

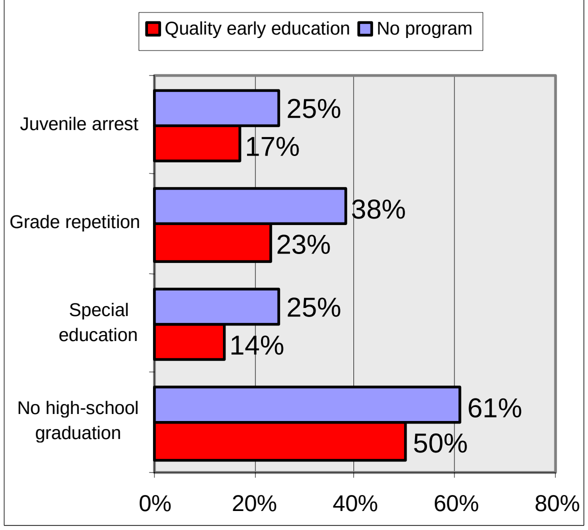
[117] S.E. Rimm-Kaufman, R.C. Pianta, and M.J. Cox, *Kindergarten Teachers Perceive Difficulties in Transitions to School*, Early Childhood Research Quarterly, Vol. 15. no. 2, November 2000.

[118] Ellen S. Peisner-Feinberg, et al, *The Children of the Cost, Quality and Outcomes Study Go To School,* Chapel Hill, NC: University of North Carolina, June 1999.

[119] www.fpg.unc.edu/~abc/.

not offered the program. The children in the program were less likely to drop out of high school, less likely to have been in special education, less likely to have repeated a grade, and less likely to have been arrested as a juvenile (see Figure 1).[120]

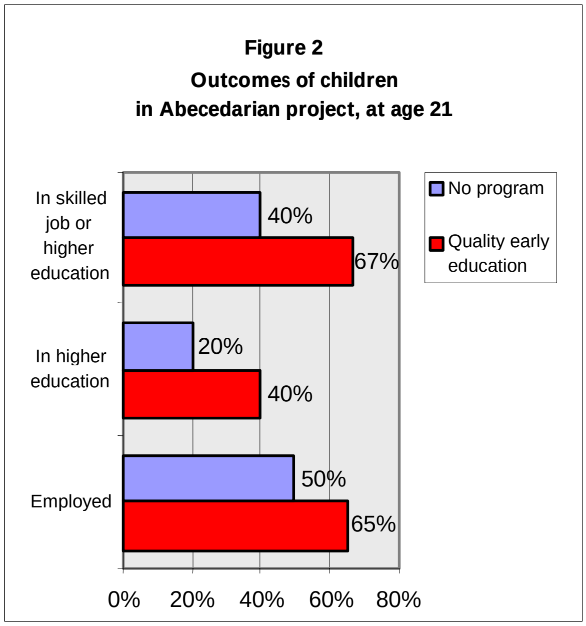
Figure 1
Outcomes, at school exit, of children in Chicago pre-school study



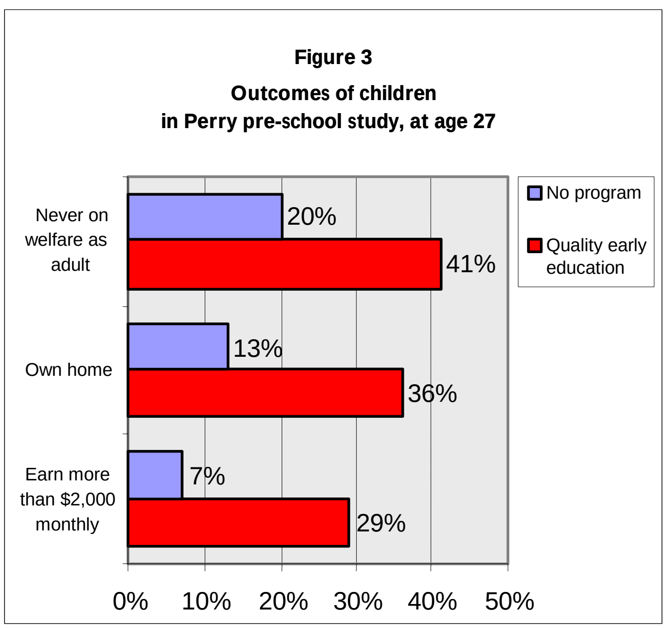
The Abecedarian Project found that children who participated in the early intervention program were more likely to attend a four-year college, and more likely to be in a high-skilled job or in higher education at age 21 (see Figure 2).[121]

> ***Example*: In 2001, the California First 5 Commission approved a $200 million for a School Readiness Initiative that spans across California. By matching state funds, the Merced County Children & Families Commission was able to spend over $4.5 million dollars over four years to "improve the abilities of families, schools and communities to prepare children to enter school ready to succeed."**

[120] Reynolds, A. J., Temple, J. A., Robertson, D. L., Mann, E. A. Long-term effects of an early childhood intervention on educational achievement and juvenile arrest- A 15-year follow-up of low-income children in public schools. *Journal of American Medical Association,* May 19, 2001, v. 285, no. 18, pages 2239-2346. All values in Figure 1 are statistically significant.
[121] www.fpg.unc.edu/~abc/. All the values in Figure 2 are statistically significant.



Another long-term study of low-income African-American children showed similar benefits of high-quality child care on the economic well-being of the children as adults. The children in the high-quality child care project, at age 27, earned more money, were more likely to own their own home, and less likely to be on welfare than their peers who were not offered the program (see Figure 3).[122]



[122] Schweinwart, L. J., Barnes, H.V., Weikart, D. P. Significant benefits: The High/Scope Perry preschool study through age 27 (Monographs of the High/Scope Educational Research Foundation, 10). Ypsilanti, MI: High/Scope Press, 1993. All the values in Figure 3 are statistically significant.

Cost-benefit analyses of spending on child care show, across all of these long-term studies, that there are significant future savings when money is invested on high-quality child care. With initial costs between $7,000 and $33,000, public savings ranged from $48,000 to $123,0000 (see Table 2).[123] [124] [125] These savings indicate that for every dollar spent on child care now, as much as seven dollars are saved in public expense in later years.

Table 2 Economic Benefits of Investing in Quality Child Care		
Study	**Cost**	**Benefit**
Chicago CPC study	$7,000	$48,000
Perry pre-school project	$12,000	$108,000
Abecedarian project	$33,000	$123,000

A recent study by economists at the Federal Reserve Bank in Minneapolis used the Perry High-Scope findings to estimate that quality early childhood development programs generate a 16 percent rate of return on investment, 12 percent of which is a public rate of return. As a result, they argue that high-quality early education is one of the strongest candidates for public funding.[126]

[123] Reynolds, Arthur J., Temple, Judy A., Robertson, Dylan L., Mann, Emily A. Age 21 Cost-Benefit Analysis of the Title I Chicago Child-Parent Center Program: Executive Summary, 2001.

[124] Barnett, Steven, W. Lives in the Balance: Age 27 benefit-cost analysis of the High/Scope Perry Preschool Program (monographs of the High/Scope Educational Research Foundation, 11) Ypsilanti, MI: High/Scope Press, 1996.

[125] Barnett, Steven W. *Some Simple Economics of Preschool Education*. Presented at the Early Childhood Municipal Leadership Academy, sponsored by the Institute for Youth, Education, and Families, National League of Cities, Alexandria, VA, April, 2002.

[126] Art Rolnick and Rob Grunewald. *Early Childhood Development: Economic Development with a High Public Return*. Fedgazette. Minneapolis, MN: Federal Reserve Bank of Minneapolis, January, 2003. Quotation in text box is from page 1.

"Early childhood development programs are rarely portrayed as economic development initiatives, and we think that is a mistake. Such programs, if they appear at all, are at the bottom of the economic development lists for state and local governments. They should be at the top. Most of the numerous projects and initiatives that state and local governments fund in the name of creating new private businesses and new jobs result in few public benefits. In contrast, studies find that well-focused investments in early childhood development yield high public as well as private returns."

Art Rolnick, Senior Vice President and Director of Research, and

Rob Grunewald, Regional Economics Analyst, Federal Reserve Bank of Minneapolis

Child Care for School-Age Children

After-school programs also serve as an effective crime prevention activity, and save public sector dollars. Nationally, nearly 7 million children ages 6 to 14 (18 percent of the children in this age group) are home alone after-school each week during the afternoon hours when juvenile crime peaks.[127]

In California, two percent of six to nine year olds are reported to be in self-care as their primary child care arrangement, and another four percent spend some of their time each week in self-care.[128] In the 10 to 12 year-old age category, one in seven are in self-care as their primary child care arrangement and one in three spend some of their week in self-care. These figures work out to be slightly lower than the national average. Self-care in older children and young adolescents is correlated with negative educational, social, and health outcomes for youth. In a 1990 study, 8th graders left home alone after-school reported greater use of cigarettes, alcohol, and marijuana than those who were in adult-supervised settings.[129]

In a George Mason University study, 91 percent of Police Chiefs surveyed agreed that "If America does not make greater investments in after-school and educational child care programs to help children and youth now, we will pay more later in crime, welfare and other costs.[130]

Conclusion

Child care, like other economic infrastructures, builds the local economy and improves the quality of life in the county. Investing in child care saves businesses money through increased participation in the workforce by parents, increased productivity at work, and increased human capital through the reduction of turnover. Investing in child care saves

[127] K. Smith, *Who's Minding the Kids? Child Care Arrangements: Fall 1995.* Current Population Reports P70-70, Washington, DC: US Census Bureau.

[128] Kathleen Snyder and Gina Adams, *State Child Care Profile for Children With Employed Mothers: California*, Assessing the New Federalism, An Urban Institute Program to Assess Changing Social Policies, February 2001.

[129] K.M. Dwyer, et al, *Characteristics of Eighth Grade Students Who Initiate Self-Care in Elementary and Junior High School,* Pediatrics, Vol. 86, No. 3, 1990.

[130] Fight Crime, Invest in Kids, *Poll of Police Chiefs conducted by George Mason University Professors Stephen D Mastrofski and Scott Keeter.* Washington, DC, November 1, 1999.

government money by reducing costs in the traditional education system, welfare, and both the juvenile and adult criminal justice systems. Reducing crime, school failure, and future welfare participation maintains a high quality of life and standard of living in Merced County.

Findings of the economic benefit of quality child care for businesses and governments indicate that child care supply-building is a good investment. By investigating low- and no-cost options for child care benefits to employees, businesses can meet growing demands for productivity and raise the quality of life for their employees. Governments, by providing incentives to businesses and the child care industry to build supply, can save public dollars and leverage public monies to effectively prepare the future workforce. Potential economic benefits of ensuring a strong child care infrastructure in the county indicate that child care is an industry ready for significant investment.

Section 5
Conclusion: Strategies & Recommendations

Merced County's child care industry is critical to its overall economic vitality and quality of life. The licensed child care industry directly supports an estimated 1,144 local jobs and generates roughly $33.5 million dollars per year in gross receipts. Annually, $24.8 million is brought into the county through federal and state subsidies for licensed and license-exempt care for low-income families.

The child care industry helps sustain the county's growing workforce by enabling parents to enter the workforce or return to it sooner, thereby increasing overall economic output in the county. In total, working parents using licensed child care in Merced County earned an estimated $75 million in 2002. In addition, stable, quality child care improves worker productivity and expands the ability of parents to advance in their careers and earnings.

High-quality early child care and education increases school readiness and enables the development of the future workforce. Investing in early care and education improves the success of children in the K-12 public education system, raises test scores and high-school graduation, and lowers grade repetition and special education needs. Every dollar spent on quality care and education programs for low-income children saves as much as seven dollars in future public spending.

Merced County has the youngest population of any county in California and its economic and demographic profile indicates that there is an increasing need for affordable, accessible, quality child care across the county. On its own, the child care industry is unable to expand at a rate adequate to meet this growing need. Without local long-term planning of a collaboration of stakeholders to address barriers to child care affordability, sustainability, and supply-building, the Merced County child care industry and the county economy as a whole will not grow as quickly as possible in the next few years.

Local Constraints on Child Care in Merced County

- The private sector, government, and other community leaders are not as actively engaged as they could be in helping families afford quality child care and in creating enough child care to support economic growth.
- Child care is becoming increasingly less affordable in relation to the cost of living in Merced County. Escalating housing costs consume a more and more disproportionate share of the household income of low- and moderate-income families.
- The child care industry is not currently meeting the demand for affordable, accessible, quality child care in the county, and, the demand is growing. Welfare reform and the rising proportion of low-wage jobs in Merced County dramatically increased the need for subsidized child care.

- The supply of infant child care and nontraditional hours care is extremely insufficient in the county.
- Child care programs struggle to attract and retain qualified staff. The availability of quality child care is directly related to child care workforce retention and development. Investments in improving the skills and increasing the wages of the child care sector is needed to ensure that all children enter kindergarten ready to learn.

Recommendations

Child care is part of the economic infrastructure of Merced County and needs to be incorporated into both short- and long-term economic development planning. Financial institutions, businesses, government leaders, and child care leaders must plan together to ensure that the needs of Merced County's working families are met.

An ongoing collaborative partnership with a clearly identified leader should be formed between business leaders, government leaders, financial institutions, child care leaders, and other nontraditional stakeholders to ensure that Merced County's child care infrastructure is meeting the needs of working families.

What Businesses Can Do to Support Child Care

- Partner with local elected officials and Chambers of Commerce to get child care issues on the policy agenda.
- Provide child care benefits to employees. These benefits might include: flexible work hours, emergency back-up child care support, flexible pre-tax spending accounts that include child care options, or on/near-site child care centers.
- Become a partner in long-term planning and strategizing about strengthening the child care infrastructure.
- Help create innovative public/private partnerships to purchase property, develop facilities, and/or strengthen existing child care enterprises.
- Offer technical assistance and business skills training to child care providers.
- Include child care facilities as part of commercial and industrial developments to benefit the company, its employees, and children alike.

What Financial Institutions Can Do To Support Child Care

- Develop loan products, such as micro-loans or low-interest loan programs, with alternative payment structures for child care businesses.
- Provide business plan, marketing, and loan application assistance to child care providers.
- Pursue tax-exempt financing opportunities and consider funding loans as part of Community Reinvestment Act requirements.

What Government Can Do To Support Child Care

- Develop strategies to make child care affordable for low-income families in Merced County.
- Secure funding to enhance and sustain the county's school readiness programs.
- Incorporate language that supports child care development into the General Plan of the county and every city.
- Encourage child care facilities development by providing a deferral/waiver of building permit fees and other development fees.
- Develop strategies for sustained funding that provide workforce development for child care professionals, including recruitment, training, and compensation.
- Identify and secure suitable land for the development of new facilities or expansion of existing ones.
- Include child care when developing transportation plans.
- Work with child care leaders to develop incentive programs that encourage providers to care for infants.
- Promote child care for working parents wishing to attend school or training and partner with Merced College, UC Merced, and other higher educational programs to support and sustain child care programs for students, faculty, and staff.

How the Child Care Industry Can Be More Effective

- Recognize that child care providers are an economic force in the community.
- Partner with nontraditional stakeholders including: businesses, economic developers, transportation planners, and faith-based organizations.
- Work with businesses and financial institutions to provide business skills and facilities financing technical assistance to child care providers and employees.
- Ensure that parents have continuous care for their children while they work by prioritizing the development of more full-day child care programs and building partnerships between part-day pre-schools and other child care programs.
- Secure federal funding for Early Head Start, which is needed to satisfy the early educational needs of working families with young children.
- Operate child care centers and family child care homes as businesses, acquiring necessary business skills that enable providers to be more financially stable, care for a greater number of children, and provide a higher quality of care.

- Educate parents and providers about the components and benefits of high-quality child care so parents can identify quality child care and providers can enhance the quality of care that they are already supplying.
- Encourage child care providers to serve on councils and advocacy boards that promote quality and accessible child care.
- Identify low cost and cost-efficient ways that the private sector can invest in child care. Businesses offering charitable receipts in lieu of cash for in-kind services and contributions to a nonprofit child care provider are eligible for a tax receipt.
- Adopt a varied array of culturally appropriate child care and education programs. Dual- or multi-lingual staff, in particular Spanish- and Hmong-speakers, are necessary to communicate with children and their parents, and culturally sensitive curricula and care are necessary for meeting parents' desires for their children's upbringing.

Appendix A
Methodology for Calculating Gross Receipts & Direct Employment for Licensed Child Care

The economic contribution of the child care industry is significantly undercounted in traditional economic accounting tools, and alternate methodologies for collecting data are necessary. The methodology used in this report relies on comprehensive, timely data about care in child care facilities, maintained by the Children's Services Network of Merced County, Inc., the child care research and referral agency (R&R) for Merced County. This agency is required by law to keep current licensed child care capacity, average costs, vacancies, and enrollment. For this report, enrollment and capacity were derived from a July 2003 survey of family child care homes and child care centers taken by the Merced County R&R. Information on cost was obtained from a survey entitled *Regional Market Rate Survey for California Child Care Providers, 2002,* which was conducted by the California Child Care Resource and Referral Network to determine the average cost of care by county. Information for total yearly expenditures and enrollment for Head Start programs, California Child Development Centers (state pre-schools and general child development centers), Pre-schools for Children with Special Needs, and other governmental programs comes from the Merced County Head Start and the Merced County Office of Education.

The estimates of gross receipts and direct employment represent a "snapshot" of the industry taken at a particular time. It is important to note that the estimates only capture the formal child care sector, because enrollment and costs are difficult to measure for the informal child care sector. Therefore, we have not included their economic impact in our analysis. Adding informal, legally unlicensed care and pre-schools run by school districts would significantly increase gross receipts and direct employment figures.

Gross Receipts

Gross receipts estimates for family child care homes and child care centers are based on one simple calculation:

Enrollment x Average Cost/Child/Year= Gross Receipts

Gross receipts for Head Start, California Child Development Centers (state pre-schools and child development centers), Pre-schools for Children with Special Needs, and other governmental child care programs equal the total budget spending in the 2003-2004 state fiscal year, as reported by Merced County Head Start and Merced County Office of Education.[131]

[131] Gross Receipts for Migrant Head Start programs in the county are not included because enrollment, budgetary, and employment information were not available at the time this report was written.

Enrollment

Enrollment numbers are derived from a July 2003 survey of family child care homes and child care centers conducted by the Children's Services of Merced County, Inc.[132]

Average/Cost/Child/Year

In order to calculate the average yearly rate for each type of care and each age group we relied on *2002 Regional Market Rate Survey for California Child Care Providers* from the California Child Care Resource and Referral Network, released in June of 2003. The survey reports hourly, full day, weekly, and hourly rates for each county. To estimate an annual rate, we converted each of these rates to annual rates and then derived an average annual rate that was weighted by the sample size of each individual average.

Direct Employment in Licensed Child Care

Family Child Care Homes

Family Child Care Homes licensed for 8 = Employee
Family Child Care Homes licensed for 12 = 2 Employees

Subsidized Centers & Non-Subsidized Centers

These figures are calculated based on the number and ages of children for which a center is licensed, and the state-required ratio of staff to children under that license. In general, younger children require a lower staff-to-child ratio, so a center that cares for 12 infants will require 3-4 adults to care for those infants, whereas a center that cares for 12 school-aged children will require only one adult to care for those children.

Multiply the average "FTE for Staff" by the number of staff required by licensing:
 # hours open/8 hours = FTE for Staff

1. Center-based infant care:

Accredited or Title V (subsidized)	=	(1 employee for every 3 children) x (FTE for staff)
Title 22 (non-subsidized)	=	(1 employee for every 4 children) x (FTE for staff)

2. Center-based preschool care:

Title V (subsidized)	=	(1 employee for every 8 children) x (FTE for staff)
Title 22(non-subsidized)	=	(1 employee for every 12 children) x (FTE for staff)

3. Center-based school-age care

Title V/Title 22	=	(1 employee for every 14 children) x (FTE for staff)

Non-Teaching Staff

Custodians/Cooks/Receptionists: Many centers fill these positions with teaching staff. Larger centers tend to have separate employees in these roles. Counties are the best judges of the general practices in their area. The following are suggested guidelines

[132] A random sample of 32 percent of family child care centers were surveyed in July, 2003. Enrollment for family child care centers was captured by taking an average enrollment rate of homes surveyed and applying it to capacity ratios for the remaining homes. All 18 child care centers were contacted in this survey.

counties can utilize to maintain consistent estimates. Each slot except "Family Worker" can be considered full time.

Custodians: Typical practice is to have one custodian for every center over 80 children. Therefore, the formula is:
# of centers with slots for more than 80 children = # of custodians

Cooks: Typical practice is that state- funded centers and larger centers have cooks:
 # centers with slots for more than 80 children = # of cooks

Receptionists: Typical practice is to have one receptionist for every center over 80 children: **# of centers with slots for more than 80 children = # of receptionists**

Non-teaching supervisory staff (directors): Typical practice is to have one director for every 80 children: **# of licensed slots / 80 = # of supervisory staff**

Family workers: Typical practice is that they are employed part-time (average 50% time) at state- funded centers: **# of state-funded centers / 2 = # of family workers**

Administrative (off site): Typical practice is for larger centers to have off-site as well as on-site administrators:
# of centers with slots for over 80 children = # of administrators

Head Start, California Child Development Centers, Pre-schools for Children with Special Needs, and other governmental child care programs
These figures are calculated based on a survey of directors and administrators from these programs. The directors provided us with specific numbers for full-time and part-time employees, from which total FTE jobs were derived.

Appendix B
IMPLAN Input-Output model

Many informed observers of regional economic analysis quantify the indirect and induced effects of an industry on the economy when assessing the economic impact of that industry. As such, this report includes these analyses in this appendix. Because these effects are not part of a conservative approach, however, the analyses are not included in the main body of the report

Estimates for the impact of child care services on indirect and induced earnings and other productivity effects are based on the application of the 2000 Merced County module of the IMPLAN Input-Output (I-O) model. Initially developed for use by the U.S. Forest Service, IMPLAN is now used in many fields. It relies on the same basic model structure and underlying economic data as the U.S. Department of Commerce Bureau of Economic Analysis Regional Impact Modeling System (RIMS).

I-O models use area-specific data on industrial and commercial activity to trace the linkages between industries. IMPLAN is based on a table of direct requirement coefficients which indicate the inputs of goods and services from various industries required to produce a dollar's worth of output in another, single industry. Standard economic "production functions"—the capital, labor and technology needed to produce a given set of goods —determine how changes in one industry's demand ultimately affect the demand for the inputs to that industry. For example, producing a ton of steel may require three workers and a particular set of equipment, which would not be required if the steel were no longer needed. Likewise, child care programs must purchase educational materials, facilities and professional staff services.

IMPLAN contains more than five hundred economic sectors, and uses economic census data to compile regional economic information. National data are adjusted for the industrial and trading patterns for the subject region. Based on this structure, IMPLAN estimates the regional economic impact that would result from a dollar change in demand of a particular industry.

The multiplier effect estimates the links between an industry and other areas of the economy. For this report, Type II multipliers, which exclude government spending, are used. Estimates for the impact of child care on the economy are based on three primary types of multipliers:

- Direct effects: Effects introduced into the state's economy as a result of spending on child care services.
- Indirect effects: Effects reflecting spending by the child care industry
- Induced effects: Effects on goods and services consumed by households with direct and indirect income support from an industry. These effects reflect changes in the state's economy caused by changes (for instance, increases) in spending patterns as a result of the direct and indirect activity.

Based on a direct employment estimate of 1,144 jobs in licensed child care, 274 full-time equivalent (FTE) indirect jobs are sustained by licensed child care. For example, these include jobs in accounting (20 jobs), real estate (10 jobs), and maintenance and repair (10 jobs)

Based on a direct employment estimate of 1,144 jobs in licensed child care, an additional 244 FTE induced jobs are sustained by the licensed child care industry. These include jobs in health care (42 jobs) and restaurants and bars (32 jobs).