# THE ECONOMIC IMPACT OF THE CHILD CARE INDUSTRY IN MONTEREY COUNTY

A study sponsored by
The Local Planning Council's
Local Investment in Child Care (LINCC) Project

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 is 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, including Monterey County in 1997. The 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 Local Child Care Planning Council of Monterey County's LINCC project contracted NEDLC to create this report (an update to the original report published in 1997) quantifying the economic impact of the child care industry in Monterey County in 2003.

## ACKNOWLEDGEMENTS

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## Section I
## Introduction

This report is a tool to bridge the gap between economic development planning and child care advocacy. A previous child care economic impact report in 1997 demonstrated that child care is a critical component for any comprehensive plan for sustained economic development of Monterey County.[1] 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 Monterey County. However, child care is often left out of economic planning and analysis, although it is an important aspect of the Monterey County's economy for three main reasons.

**Currently in Monterey County, over 49,000 children ages 0 to 13 need some form of care because their parents are in the labor force.**

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 Monterey County, over 18,000 children under six have all parents in the labor force, and almost 31,000 children ages 6 to 13 have all parents working, representing 52 percent and 62 percent of all children in their respective age groups.[2] Similar to transportation and housing, without available and affordable child care services, parents are unable to effectively participate in the workforce.

**The child care industry:**

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

Second, high-quality child care ensures a skilled future workforce. 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 Monterey 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.[3]

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[1] National Economic Development and Law Center. *Economic Impact of Child Care in Monterey County, 1997.*

[2] U.S. Census Bureau, Census 2000. Numbers adjusted to 2003 population levels.

[3] 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.

Third, child care is a major industry in Monterey County in its own right. Research presented in this report demonstrates that licensed child care is a significant income-generating, job-creating industry. Child care contributes more in annual gross receipts than other major industries in the county, such as artichoke farms, and golf courses. In addition, the industry employs more people in the county than clothing stores and farm management services firms. Monterey County's licensed child care industry directly employs 1,446 people and generates approximately $46.3 million per year in gross receipts.[4]

**The licensed child care industry in Monterey County directly employs 1,446 people and generates approximately $46.3 million per year.**

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. Because child care creates economic benefits for the families who use it and for society at large, 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, an update to *The Economic Impact of Child Care in Monterey County* in 1997, 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 Monterey County
- Assesses the extent to which child care currently supports the economy of Monterey 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 Monterey 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

[4] See Section 3 for further discussion of results and methodology.

children, such as licensed family child care homes, child care centers, Head Start, Migrant Head Start, California Child Development Centers (state pre-schools and general child development centers), and other non-governmental pre-schools.

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 Monterey County and Alameda, Kern, Los Angeles, Orange, San Mateo, Santa Clara, Santa Cruz, and Ventura counties. The Child Care Economic Impact Reports (CCEIRs) 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 Monterey 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 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; and development of the future workforce.

The report concludes with **Section 5**, which provides recommendations based upon the concepts articulated in this report. It suggests key areas for Monterey 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.

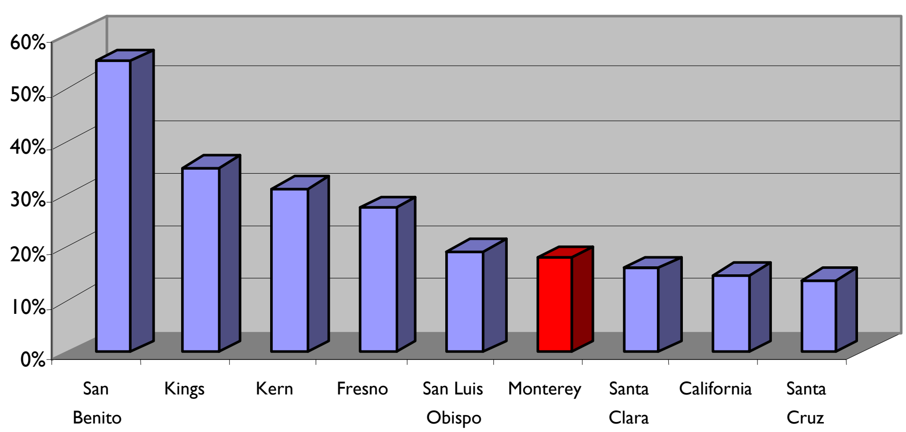
## Section 2
## Demographic & Economic Profile of Monterey County

Monterey County has seen steady population growth, fueled by childbirths since the last report was completed. Projections indicate that the county will experience a similar trend in the next twenty years. Additionally, the county has undergone a dramatic shift in the racial/ethnic makeup of its residents with Hispanics/Latinos accounting for over 47 percent of the total population—more than any other ethnic/racial group. Economically, Monterey County is gradually diversifying, with high projected growth in business services, but its economic potential is being diminished by low labor force participation, a lack of a highly skilled workforce, and one of the least affordable housing markets in the United States. 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 and the economic development of the county.

### Population

Monterey County's population increased 18 percent from 1990 to 2003, with an estimated 415,773 residents in 2003.[5] Regionally, Monterey County grew as fast or faster than Santa Clara, Santa Cruz, and San Louis Obispo counties, but significantly slower than San Benito County and other surrounding counties located in the San Joaquin Valley (see Figure 1).[6]

**Figure 1**
**Percent Population Growth of**
**Monterey & Surrounding Counties, 1990-2003**




[5] California State Department of Finance. E5 City/County Population and Housing Estimates, 2003.
[6] California State Department of Finance. E1 City/County Population Estimates, 2002.

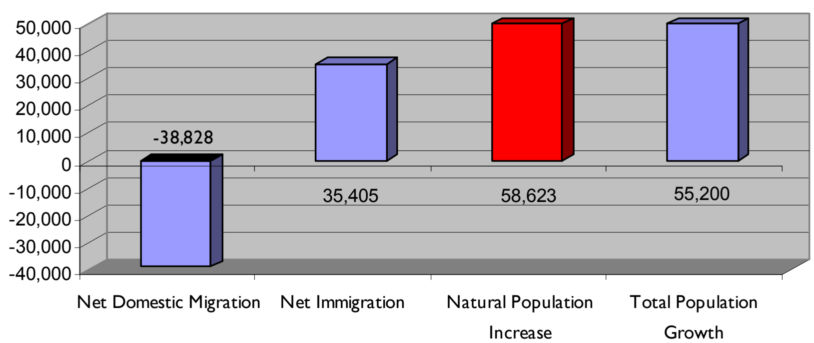
Projections demonstrate that current population trends are expected to continue in the next several decades. Specifically, Monterey County's population is projected to increase an estimated 45 percent from 2000 to 2020, totaling over 590,000 residents.[7] Similar projections predict that there will be approximately 36,000 children under the age of five living in Monterey County by 2020.[8]

**Projections reveal that by 2020, there will be an estimated 36,000 children under the age five living in Monterey County.**

Childbirth is the primary driver of population growth in Monterey County. From 1990 to 2002, the county's natural population increase (the difference between the number of births and deaths) was almost 59,000 residents. A net estimate of 35,000 people moved from outside the U.S. into Monterey County (net immigration) from 1990 to 2002. However, during the same time span, a net estimate of almost 39,000 residents moved from Monterey County to other counties within the U.S. (net internal migration; see Figure 2).[9]

**Figure 2**

**Components of Population Change in Monterey County, 1990-2002**




Of 58 counties in California, Monterey County has the 17th youngest population, with children ages 14 and under comprising nearly one-fourth of the county's general population and totaling over 99,000 residents in 2003 (see Figure 3). Contrastly, adults over the age of 65 comprise only 10 percent of the total population in Monterey County.[10]

**Of the 58 counties in California, Monterey County has the 17th youngest population, with children ages 0 to 14 accounting for nearly 25 percent of the county's general population.**

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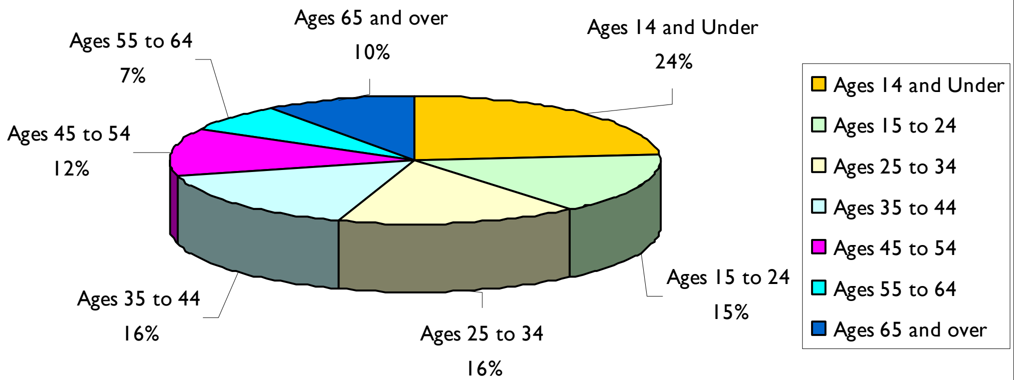
[7] California State Department of Finance. Interim County Population Projections, Estimated July 1, 2000 and Projections for 2005, 2010, 2015, and 2020.

[8] California State Department of Finance. County Population Projections with Age, Sex and Race/Ethnic Detail July 1, 1990-2040 in 10-year Increments.

[9] California State Department of Finance. County Population Estimates and Detailed Components of Change July 1, 2000-2002, with 2000 Census Counts.

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

**Figure 3**
**Percent of Total Population, By Age,**
**Monterey County, 2003**




There are an estimated 39,000 children ages zero to five in Monterey County, and they account for over nine percent of the general population.[11]

Of the 52,657 families with children under 18 years old in Monterey County, nearly 29 percent of families with children under six are single-parent families (4,712 families), families who typically are most dependent on child care for labor force participation.[12]

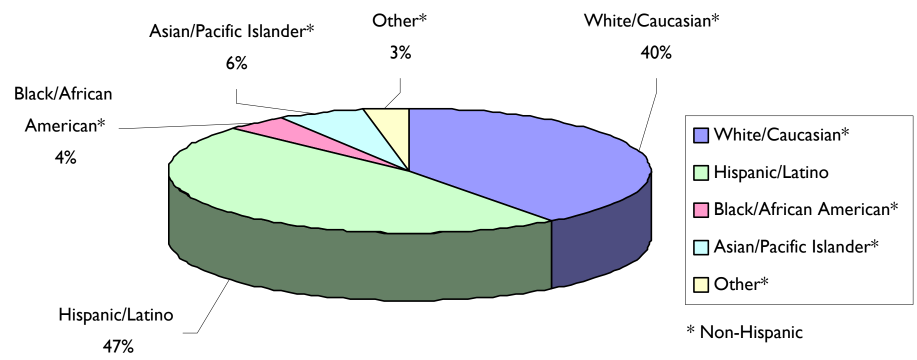
**Single-parent families, the families most dependent on child care, are prevalent in Monterey County—over one quarter of all families are single-parent families.**

### Diversity

In 2000, there were more Hispanic/Latino residents than any other racial/ethnic group—47 percent, and non-Hispanic whites accounted for 40 percent of Monterey County's general population. Asian Americans/Pacific Islanders are the third-largest racial/ethnic group in the county, accounting for six percent of the population, and African Americans/Blacks accounted for four percent of the general population (see Figure 4).[13]

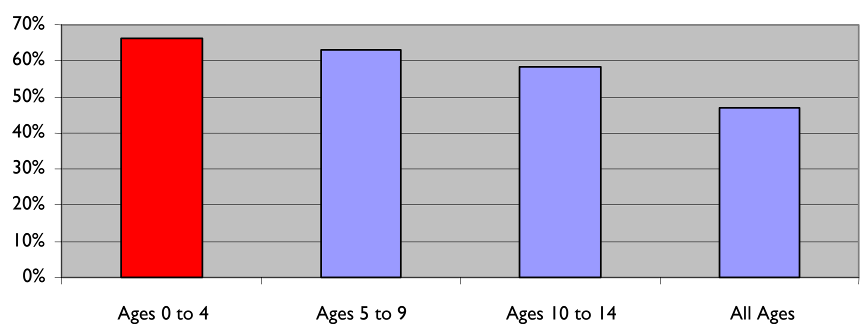
[11] U.S. Census Bureau. Census 2000.
[12] Ibid.
[13] U.S. Census Bureau. Census 2000 & Census 1990

Figure 4
Race/Ethnicity, Monterey County, 2000




Hispanic/Latino children account for 62 percent of all children ages 0 to 14 (see Figure 5).[14] Because Hispanics/Latinos make up a large proportion of children, they are expected to makeup and even larger percentage of the county's future population.

Figure 5
Percentage of children who are Hispanic/Latino,
by age, Montery County, 2000




There are a growing number of children who enter kindergarten as English learners. The proportion of children entering kindergarten who were English learners increased from 34 percent in 1995 to 38 percent in 2000.[15] Additionally, in the 2001-2002 school year, there were over 2,891 children entering kindergarten who were learning English for the first time, of which 96 percent were Spanish speakers. English learners accounted for approximately 49 percent of all children entering kindergarten.[16]

[14] U.S. Census Bureau. Census 2000.
[15] Tellus Diganos. *The Monterey County Children & Youth Report, 2001*.
[16] California Department of Education, DataQuest. *Socio-Economic Status (SES) of Children, 2001-2002.*

## Labor Force

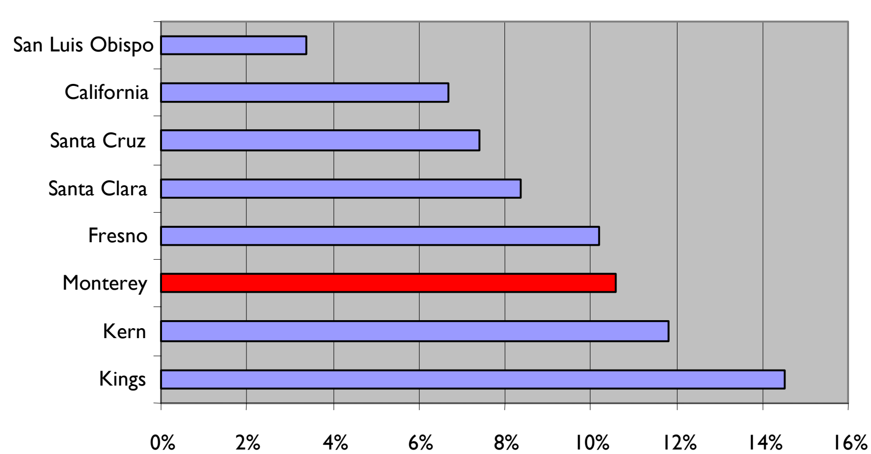
Low labor force participation acts as an obstacle for sustained economic development in Monterey County. The proportion of residents ages 16 and over who participated in the county's labor force decreased from over 68 percent in 1990 to 62 percent in 2000. Similarly, labor force participation has not been able to match population growth in the county. Between 1990 and 2000, the population of people working (ages 16 to 64) increased by almost 12 percent in Monterey County, but the labor force grew by only two percent.[17]

**Female labor force participation dropped from 59 percent in 1990 to 56 percent in 2000, suggesting that a lack of affordable, accessible, and quality child care may be impeding some females from continuing to participate in the labor force.**

Female labor force participation is a key determinate of child care need. Over 56 percent of all females over age 16 participate in the labor force, which is slightly higher than California statewide participation rate of 55 percent in 2000.[18] However, female labor force participation has dropped since 1990 (59 percent), indicating that a lack of accessible, affordable, and quality child care could be impeding females from joining in the labor force.

Additionally, the percentage of those within the labor force who cannot find a job (the unemployment rate) has been historically high in Monterey County. From 2000 to 2002, the unemployment rate in the county climbed from 9.6 percent to 10.5 percent, which is the 11th highest county in the state of California, and is almost twice as high as California statewide 2002 annual unemployment rate of 6.7 percent (see Figure 6).[19]

**Figure 6**
**2002 Annual Unemployment Rates, Monterey & Surrounding Counties**




[17] U.S. Census. Bureau. Census 2000.
[18] Ibid.
[19] California Employment Department. *Monthly Labor Force Data for Counties.*

Almost 32 percent of adults over 25 do not have a high school diploma in Monterey County, and only 23 percent have a bachelor's degree.[20] Furthermore, only one quarter of those who graduated high school in 2001 had taken the necessary coursework required for entrance in the UC or CSU systems.[21] In a survey of Monterey County's employers by the Economic Competitiveness Group, Inc., the majority of the respondents indicated the quality of the local workforce was insufficient.[22]

**The majority of employers in Monterey County agree that the quality of the county's workforce is insufficient.**

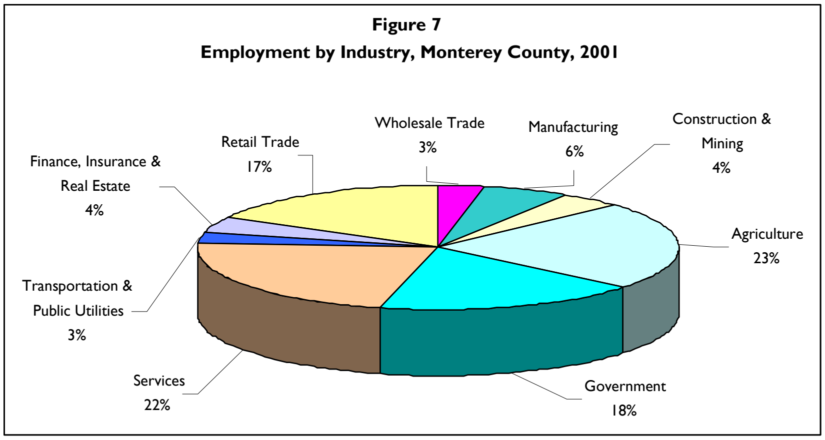
In 2001, there were approximately 168,300 jobs in Monterey County. The agriculture industry, which accounts for 23 percent of total employment, is the largest industry in the county.[23] The agricultural services industry has been identified as a "Star" industry, an industry with a high Employment Concentration Ratio and which forecasts to have strong growth in the next five years.[24]

Similarly, the service industry (which currently includes the "child day care services" industry classification), accounts for almost 22 percent of all jobs in the county (see Figure 7), and from 1997 to 2001, had the second-fastest job growth of any industry in the county—13 percent (4,200 jobs). Future trends indicate that from 1999 to 2006, Monterey County's service industry will grow by 20 percent. Of new jobs, business services was the fastest growing sub-sector. If this sector continues to grow, there will be an increased demand for high-skilled workers.[25] The tourism industry, which is part of the service sector, is a major industry in Monterey County—there were over 24,000 people working in this industry in 2000.[26]

Other leading industries include government and retail trade, accounting for 18 percent and 17 percent of total employment respectively (see Figure 7).

**The business services industry is one of the fastest growing subsectors in Monterey County. A collaborative effort on improving the early care and education infrastructure and the traditional K-12 educational system is necessary to provide the future workforce with the necessary skills to work in this growing industry.**

[20] U.S. Census Bureau. Census 2000.
[21] Economic Competitiveness Group, Inc. *Monterey County Business & Workforce Assessment, 2002.*
[22] Ibid.
[23] California Employment Development Department. *County Snapshots: Monterey County, 2002*
[24] Monterey County Office of Economic Development. *Monterey County Comprehensive Economic Development Strategies, 2002..*
[25] California Employment Development Department. *County Snapshots: Monterey County, 2002.*
[26] Monterey County Office of Economic Development. *Monterey County Comprehensive Economic Development Strategies, 2002..*




Many of the larger employers in the Monterey County are agriculture firms, including Bud of California, Tanimura & Antle, and D'arrigo Brothers Company. Of the public sector, the County of Monterey, the CDC Correctional Training Facility, and the Salinas Valley State Prison are the largest employers. In the service industry, Escamilla & Sons, an agricultural labor contracting firm, is the largest employer. Medical services, including Community Hospital of the Monterey Peninsula and Salinas Valley Memorial Hospital also employ a large number of people. Firms in hi-tech and business services employ a significant share of the county's workforce, but they are typically small in size. Other major employers in Monterey County include: Monterey Peninsula College, the Pebble Beach Company, and Household International. [27]

## Cost of Living

The Self-Sufficiency Standard measures the amount of income needed for a family to adequately meet its needs without government assistance. This standard varies depending on the location and size of the family. Monterey County's 2000 self-sufficiency wage was $42,379 for an adult with two small children,[28] which was significantly higher than counties in the San Joaquin Valley, but lower than those in the Silicon Valley or the Bay Area.

The median hourly wage for all occupations in Monterey County is almost 17 percent lower than the state of California's.[29] Additionally, more than half of all jobs in Monterey County pay less than the self-sufficiency wage for a single adult with an infant child ($16.82/hour).[30] Of the top ten jobs with greatest absolute projected growth from 1999 to 2006, only 50 percent paid an hourly self-sufficiency wage ($13.90/hour for

[27] Pebble Beach Real Estate Company. *Top Ten Employers, June 2002.*

[28] 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.

[29] Monterey County Office of Economic Development. *Monterey County's Comprehensive Economic Development Strategy, July 2002.*

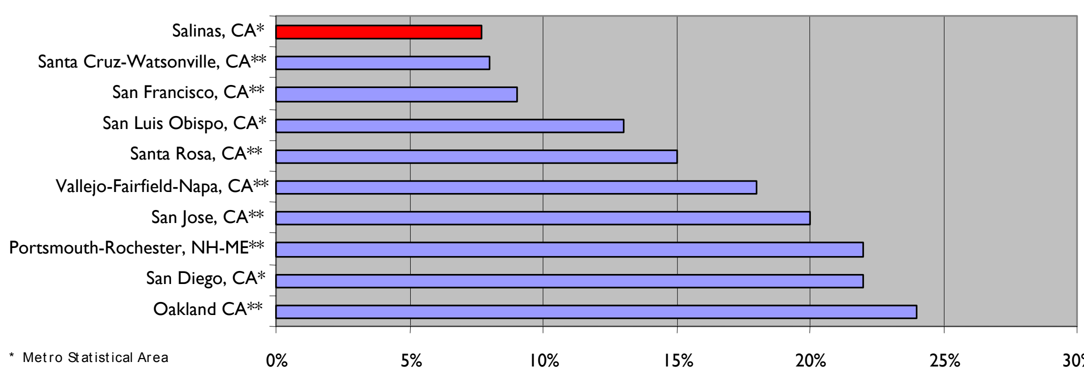
[30] California Employment Development Department. *Occupational Employment (2001) & Wage (2002) Data*

single parent family with two school-aged children) in 2002.[31] Furthermore, the mean entry-level hourly wage for Monterey County ($7.47) is considerably lower than the self-sufficiency wage for a single adult ($9.24).[32]

**When median income is considered, Monterey County consistently ranks in the top five least affordable housing markets in the United States. Expensive housing costs leave working families with less money to spend on other necessary household items like child care and transportation.**

One of Monterey County's strongest attributes for attracting businesses and high-skilled workers to the area is its relatively low cost of living compared to Santa Cruz County and the Bay Area. However, while the costs of housing may be low in comparison to more affluent parts of California, of 191 metro areas surveyed by the National Association of Home Builders in 2002, the Salinas MSA (which includes Monterey County) is the least affordable housing market in the United States when its median income is also considered (see Figure 8). Due to the high percentage of low-income residents in the area, less than 8 percent of households could afford the cost of a home at the median price of $191,000 in 2002.[33]

**Figure 8**
**Percentage of households who can afford a house a median price,**
**The top ten least affordable housing markets in the US, 2002**




* Metro Statistical Area
**Primary Metro Statistical Area

The fair market rate for renting a two-bedroom apartment is $844 per month, or $33,760 annually, and the hourly wage needed (working a 40 hour week) to afford a two-bedroom apartment is $16.70. A head of household earning California minimum wage of $6.75 would have to work 96 hours per week to afford a two-bedroom apartment at the fair market rate in Monterey County.[34]

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[31] Northern California Council for the Community. *Bay Area Indicators: Measuring Progress Toward Sustainability, 2003.*

[32] California Employment Development Department, Labor Market Information Division, County Snapshot, Monterey County, 2001.

[33] National Association of Home Builders. *Housing Opportunity Index: First Quarter 2002.*

[34] 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.

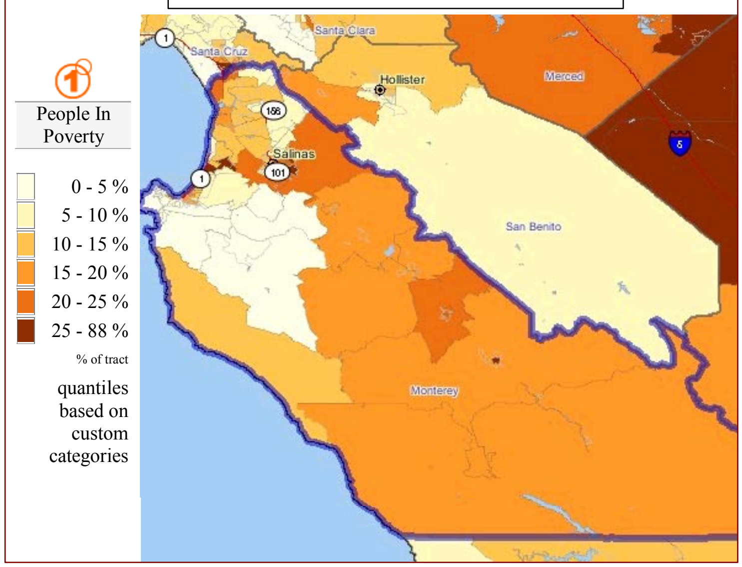
The average yearly cost of child care for an infant in full time center-based care in Monterey County is currently estimated at $8,296 per year,[35] which is significantly higher than a year's tuition at the University of California at Santa Cruz ($5,650) for a California resident who is an undergraduate.[36] Full time center-based child care for one infant and one toddler in Monterey County has an average annual cost of $14,261.[37] For a family at median family income, these child care costs would be over 28 percent of their total annual income.[38]

**Full-time licensed child care for an infant costs nearly twice as much as a year's tuition at UC Santa Cruz for a California resident.**

### Low-income Families

Approximately nine percent of Monterey County's families earn an annual income of less than $15,000.[39] In 1999, almost 52,000 residents lived under the federal poverty line in Monterey County—approximately 18 percent of the total population.[40] In the areas just south of Salinas and just north of the city of Monterey at least 25 percent of the population live in poverty (see Figure 9).[41]

**Figure 9**
**People Living in Poverty, Monterey County, 1999**




The percentage of families living in poverty increases dramatically for single-mother families (see Figure 10). While 16 percent of families with children 18 and under live below the poverty line, over 30 percent of single-mother families with children 18 and under live in poverty. Similarly, 16 percent of all families with children five and under live below the poverty line, but 39 percent of single-mother families with children five and under live in poverty (see Figure 10).[42]

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[35] California Child Care Resource and Referral Network. *Regional Market Rate Survey for California Child Care Providers, June 2002.*

[36] University of California Office of Resource Management and Planning. *University of California Annual Fee Levels 2002-2003.* Numbers were adjusted to account for the 25 percent tuition hikes in July, 2003.

[37] Based on current survey from the Monterey County .

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

[39] U.S. Census Bureau. Table DP-3. Profile of Selected Economic Characteristic: 2000.

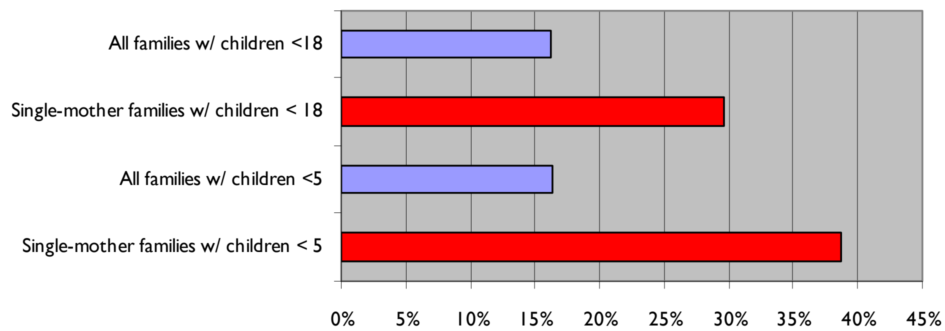
[40] Ibid.

[41] 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

[42] US Census Bureau. Table DP-3. Profile of Selected Economic Characteristic:2000.

Figure 10

Percentage of Families in Poverty, Monterey County, 1999




In 2001, 58 percent of Monterey County school-age children were classified as low-income children and therefore eligible for free or reduced-price meals.[43] In 2003, approximately 1,500 low income, eligible children remain on waitlists for CalWORKs and GAPP/FAPP child care subsidies.[44]

## Implications for Child Care

Monterey 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, housing affordability, and a need for increased female labor participation – fuel continued demand for child care programs. These conditions have the following implications for the county's child care industry:

## Population

- Monterey's population continues to grow, creating demand for the entire education system, for children of traditional ages for schooling and for children ages zero to five.

## Diversity

- The increasing proportion of Latinos in Monterey County requires more culturally appropriate child care services, including culturally sensitive curricula and care.
- Due to the rising proportion of children who are Latino, there is an increasing demand for Spanish-speaking child care professionals.

[43] California Department of Education, DataQuest. *The State Of Our Children, 2000, County Data Table.*

[44] Children's Services International, Monterey County. CalWORKs Stage 2, 3, and GAPP/FAPP subsidy waiting lists, Monterey County, 2003. 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 200).

### Labor Market

- Because Monterey County lacks an abundant supply of highly skilled workers, it struggles 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.
- Economic development planners and the Monterey County Workforce Investment Board must create strategies that consider parents wishing to participate job trainings who will need affordable child care.
- With the one of 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. Also, 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

- Monterey 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, such as those in child care, struggle financially to remain in the county.
- With a growing proportion of the family income going to basic needs, such as housing and child care, the quality of life in Monterey County is increasingly difficult to maintain, particularly for families with low or middle income.

### Low Income Families

- Because of the high number of low-income children in Monterey County, child care programs experience an aggressive demand for subsidized slots.
- Continued implementation of the state's CalWORKs program 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 Monterey County's industries indicate a continued need for strategies that make child care affordable for low-income working families.

### Section Summary

The county needs to expand its supply of accessible, quality, and affordable 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 Monterey 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 and variety of legally unlicensed, informal child care services which are used for both early education and to support parental employment (as discussed in Section 1). Thus, the analyses in this report underestimate the full impact of child care on Monterey 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. Although many surveys use an industrial classification system that recognizes "child day care services," they underestimate the size of the child care industry because of its diversity of establishments, which includes self-employed individuals, programs run by religious or social organizations, and both not-for-profit and for-profit small businesses and chains.[45]

This study uses a more accurate method of measuring the size of the child care industry, as it primarily relies upon data from the Monterey County Child Care Resource & Referral Program (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.

Gross receipts 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 centers), age of child (infant, toddler, pre-school age, and school age), and length of care (full-/part-time). Average hourly, daily, and weekly rates from the *Regional Market Rate Survey for California Child Care Providers, 2002* were used.

[45] 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.

There are approximately 651 licensed child care facilities in Monterey County (481 family child care homes and 140 child care centers that care for approximately 8,882 children.[46] Based on the methodology briefly described above, the estimated value of annual gross receipts for licensed child care in Monterey County is $46.3 million, including $12.9 million for family child care homes and $33.4 million for center-based care.

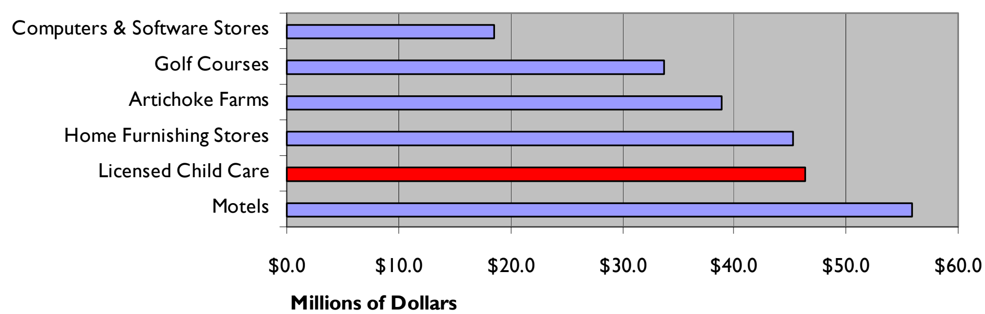
**The estimated annual gross receipts for licensed child care in Monterey County total $46.3 million.**

### Gross Receipts Compared with Other Industries

Matching the child care industry's gross receipts with other industry subsectors puts the size of child care industry into context. Licensed child care generates more gross receipts than the following industries: home furnishing stores ($45.2 million), artichoke farms ($38.9 million) golf courses ($33.7 million), and computer and software stores ($18.6 million; see Figure 1). In addition, the child care industry is 79 percent of the size of the motel industry in the county.

**Figure 1**

**Gross Receipts Comparisons, By Industry, Monterey County, in millions of dollars**




Gross receipts for non-agricultural industries are from the 1997 Economic Census and gross receipts for agricultural industries are from the Monterey County Department of Agriculture's Monterey County 2002 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 Monterey County is estimated to be 1,446 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 requirement imposed by licensing laws for different age groups, and minimal support staffing in center

**The child care industry in Monterey County directly supports more than 1,446 full-time equivalent jobs.**

[46] Current survey results from Monterey County Child Care Resource and Referral Program, 2002. Child care centers include: 36 Head Start & Migrant Head Start cites, 59 California Child Development Centers (state pre-schools and general child development centers), and 45 private child care centers.

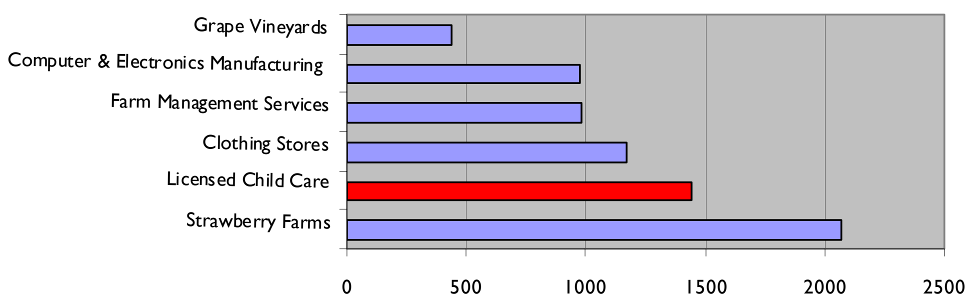
serving more than 80 children at one time (please see Appendix A for a detailed methodology). The total number of people working in the child care industry is likely higher because so many child care professionals work part-time. Some child care operators choose to maintain higher ratios in order to 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 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.[47]

## Direct Employment Compared with Other Industries

The number of FTEs in child care is similar to the number of employees who work on strawberry farms (2,066 jobs; see Figure 2).[48] There are more FTEs in child care in the county than there are people working in clothing stores (1,167 jobs), the farm management services industry (980 jobs), the computer and electronics manufacturing industry (972 FTE jobs), and grape vineyards (439 jobs; see Figure 2).[49]

**Figure 2**
**Direct Employment Comparisons between Monterey 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, which is taken from findings in this report.

## Capture of Federal and State Subsidies

The federal and state governments provide subsidies for child care that help poor families in paying for child care so parents can participate in the workforce or in training and educational activities. These subsidies also fund child care quality improvement initiatives. Government subsidies are provided in two basic forms: direct contracts with child care centers based on the number of low-income children they serve and the

[47] Personal communication, Art Rolnick, Director of Research, Federal Reserve Bank of Minneapolis, 2003.
[48] Data is from the 2001 Monterey County Covered Employment and Wages (ES-202) survey, adjusted to 2003 labor force levels for comparison.
[49] Ibid.

number of days of care provided, and an "Alternative Payment" (AP) program which enables families to choose their own licensed or license-exempt child care provider.

Another significant area of public funding is the comprehensive child development programs in Head Start. Head Start serves children from birth to age 5, pregnant women, and their families in child-focused programs designed to increase school readiness of young children in low-income families.[50] Head Start programs in the county encompass Migrant Head Start for the children of migrant or seasonal workers (typically agricultural workers). In fiscal year 2002-2003, Monterey County received $11.7 million in Head Start funding.[51]

The California Department of Education administers the US Department of Agriculture's Child Care Food Program, which provides meals to low-income children. In 2001, the Child Care Food Program in Monterey County received $1.0 million.[52]

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).

**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 limit 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.

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. This expansion requires welfare recipients to engage in work activities within a specific time frame, although most child care services are not affordable.

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)

[50] 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.
[51] Monterey County Office of Education, Head Start Program. FY 2002-2003 Head Start Budget. Information for Migrant Head Start was not available at the time this report was prepared.
[52] California Department of Education, Nutrition Services Division website at www.cde.ca.gov/nsd/.

through county welfare departments. Stages Two and Three child care services are administered by local agencies under contract with the California 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 Monterey 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.

In 2002, Monterey County drew down roughly $28 million in child care-related subsidies (see Table 1 for breakdown). Some of these funds were distributed through licensed child care facilities; however, a significant portion of child care vouchers were redeemed by license-exempt child care providers. Approximately 60 to 65 percent of CalWORKs Stage One vouchers are spent on license exempt child care, and 51 percent of GAPP, FAPP, CalWORKs Stage Two, and CalWORKs Stage Three vouchers are spent on licensed exempt care.

**Table 1**
**Sources of Subsidies for Child Care**
**In Monterey County, 2002**

| | |
|---|---|
| **Vouchers** | |
| CalWORKs Stage One[53] | $4.4 million |
| CalWORKs Stage Two[54] | $5.5 million |
| CalWORKs Stage Three[55] | $3.7 million |
| General Assistance Payment Program (GAPP)[56] | $200,000 |
| Federal Assistance Payment Program (FAPP)[57] | $1.5 million |
| **Direct Services** | |
| Head Start[58] | $11.7 million |
| USDA Child Care Food Program[59] | $1.0 million |
| **Total:** | **$28.0 million** |

Because lower-wage occupations lead much of Monterey County's projected job growth, the availability of federal and state child care subsidies play an increasingly

[53] Monterey County Association of Government. FY 2002-2003 CalWORKs Stage One Child Care Voucher Allotment.
[54] Children's Services International. FY 2002-2003 Spending for GAPP/FAPP, and CalWORKs Stage Two and Three.
[55] Ibid.
[56] Ibid.
[57] Ibid.
[58] Monterey County Office of Education, Head Start Program. FY 2002-2003 Head Start Budget. Budget information for Migrant Head Start was not available at the time of this report.
[59] California Department of Education, Nutrition Services Division. FY 2000-2001 County Profile for California Child Care Food Program, Monterey County.

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 Monterey 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 Monterey County, such as farm management services or home furnishing stores.

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, providing tax revenue, and purchasing goods and services from many other industry sectors. 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, and Quality of Life

The child care industry in Monterey County supports other businesses by increasing employee participation and productivity. A healthy child care industry helps businesses attract and retain the best employees. Also, quality, stable child care reduces employee 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. Quality child care reduces crime, enables individuals and families to live better and more fully, and increases public dollars available for enhanced services for residents.

Investing in quality child care is a win-win situation:

- ***Businesses win*** when quality, affordable, accessible child care options attract new skilled workers to the area, and improve attendance and job satisfaction in existing employees
- ***Children win*** because they enter the traditional K-12 school system healthy, socialized and ready to learn
- ***Financial Institutions win*** when the child care industry becomes a more viable market for their loan products
- ***Communities win*** when parents have access to safe, quality child care for their children while they work
- ***Government wins*** when taxpayers pay less in criminal justice, remedial education, and welfare costs as a result of high-quality child care

Public and private investments in the child care infrastructure contribute to Monterey 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 Monterey County's future workforce by improving the cognitive skills and emotional well-being of children and ensuring that they enter the traditional K-12 school system ready to learn

### The Impact of Child Care on Economic Competitiveness

Like transportation, education, public works, and affordable housing, child care is a necessary and vital part of the economic infrastructure. Investing in child care has direct, positive benefits for the county's overall economic competitiveness. Just as a highway system enables Monterey 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 Monterey 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 and affordable child care enables parents to continue to work and advance in their careers after they have started a family. The majority of families with children in Monterey County do not have a parent who stays home full-time. There are over 16,000 dual-parent families with children ages 0 to 13 in which both parents are in the labor force and almost 7,000 single-parent families with children 0 to 13 in which the parent works—together constituting almost 23,000 families and 44 percent of all families with children under 13.[60] While not all working parents use licensed child care, the majority of their children are in someone else's care at some time during the day.[61]

**Almost 23,000 families in Monterey County with children ages 0 to 13 have all parents in the labor force.**

Using previous estimates that center and family-based licensed child care account for 42 percent of care provided to children ages zero to five and 22 percent of school-aged children,[62] there are almost 7,000 working parents in the county with children 0 to13 who use licensed child care who might otherwise have stayed home to care for children in 2002.[63] In total, Monterey County parents using licensed child care (all single working parents and one parent in a dual-earning household) earn over $216.3 million annually (see Table 1).[64]

[60] U.S. Census Bureau, Census 2000.
[61] Richard Chase. Household Use Survey.
[62] 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 usage rates for children ages 6 to 13 were not available.
[63] 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. This estimate is updated to 2002 population levels.
[64] 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.

| Table 1<br>The Economic Output of<br>Monterey County's Working Parents<br>Using Licensed Child Care, 2002 | |
|---|---|
| **Family Type** | **Labor income of working parents using licensed child care** |
| Dual-parent families w/ children 0-13 in which both parents are in the workforce | $160.6 million |
| Single-parent families with children 0-13 in which the parent is in the workforce. | $55.7 million |
| **Total** | **$216.3 million** |

A lack of affordable and suitable child care is a deterrent for many parents who want to enter the workforce and may inhibit economic growth in the area. In a national survey of the child care needs of working parents, 43 percent of parents indicate that a lack of acceptable child care prevents either them or their spouse from taking a job they want.[65] 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.[66] Accessible child care options are crucial to enabling employees to obtain and retain their jobs.

The supply of licensed child care is a critical variable in the capacity of a local area to experience economic growth. 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, in others, 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.

**Absenteeism due to family issues, including child care, cost an average of $15,000 per year for small companies and more than $900,000 for large companies.**

## Economic Productivity

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

[65] 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.

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

million for large companies, according to a national survey of human resource executives.[67] While one-third of unscheduled absences were due to personal illness, one-quarter were due to family issues, including children's illness and unscheduled breakdown of child care arrangements (see Figure 1). Nationwide, it is estimated that worker absenteeism due directly to child care problems cost U.S. businesses $3 billion per year.[68]

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.[69] 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. Additionally, 52 percent of parents reported that the problems of finding child care affected their ability to do their job well.[70]

**Businesses with strong benefits packages that include low cost or cost-neutral child care benefits increase loyalty among their workers. Employees using a Nations Bank child care subsidy program had one-third the turnover of non-participants in similar jobs.**

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.[71] American Express Financial Advisors found that a newly created back-up child care service recovered 105 days in worker productivity.[72]

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 bottom line; turnover is estimated to cost 1.5 times the annual salary of a salaried

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[67] Harris Interactive. *CCH Unscheduled Absence Survey, 2002.*
[68] As cited in *Building Blocks: A Legislator's Guide to Child Care Policy*, National Conference of State Legislatures, 1997, p. vii.
[69] 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.
[70] 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.
[71] Sandra Burud, citing Rodgers and Associates study in *Evidence That Child Care and Work-Life Initiatives Will Impact Business Goals.* Claremont Graduate University, 1999.
[72] Sandra Burud, Evidence That Child Care and Work-Life Initiatives Will Impact Business Goals. Claremont Graduate University, 1999.

employee, and .75 times the annual wage income of an hourly employee.[73] This loss of human capital is preventable and there are cost-effective solutions to ensure that employees' child care needs are met.

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. Ironically, child care benefits were not considered by employers as being essential.[74] Businesses can avoid this disconnect by offering benefits that focus on their employee's needs and reduce costs stemming from absenteeism, low productivity, and turnover.

**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.**

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.[75] Similarly, while 27 percent of Citicorp employees who did not use an on-site child care left their positions, only eight percent of those using the center left.[76]

**Companies have a menu of child care benefits that they can offer their employees. Smaller companies may offer Dependent Care Flexible Care Spending Accounts 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.**

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 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.[77]

**"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***

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[73] Phillips, J. Douglas (Senior Director of Corporate Planning, Merck & Co. Inc.), "The Price Tag on Turnover," *Personnel Journal*, December 1990, pp. 58-61.
[74] Merk. *Using Benefits to Attract and Retain Employees*, 1999. As cited on www.probenefits.com.
[75] Simmons College, *Benefits of Work-Site Child Care*, 1997, as cited by Bright Horizons Family Solutions.
[76] Bright Horizons Family Solutions. *Return on Investment.* Presentation, 2003.
[77] Paul Orfalea. Interview, the National Economic Development and Law Center, 2002.

Some Monterey County companies 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. Back-up child care is becoming increasingly popular among businesses trying to cut costs. Since 1993 the percentage of U.S. employers offering this benefit increased 10 percent. According to an estimate by WFD consulting, for every one dollar invested in back-up care, employers can expect a return of $3 to $4 dollars in increased productivity and reduced turnover.[78] Household International, one of the major employers in Salinas (1,550 employees), offers back-up child care services to their employees through an onsite child care center.[79]

***<u>Example</u>:* After conducting a survey of employees in 1998, Household International, a credit services firm located in Salinas, provided back-up child care services to their employees through an onsite child care center. The center has 686 children currently enrolled for back-up child care and provides care to an average of 16 infants and preschoolers each day. During school breaks the center serves an additional 15 school-age children. The child care center saves the company an estimated 31,000 hours of worker productivity.**

The Community Hospital of the Monterey Peninsula, located in the city of Monterey, and Household International offer child care benefits 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.

### Enabling Workforce Development

Child care is a critical component of workforce development. Child care services are needed during various activities, such as education and training, which prepare individuals to enter the workforce. In recognition of this, many colleges and universities have developed on-site child care facilities to accommodate parents pursuing both undergraduate and graduate degrees.

The *Monterey County Business & Workforce Assessment, 2002* acknowledges the importance of workforce development for economic growth. "The most common concern voiced by Monterey County business owners and managers is that qualified, reliable employees are difficult to

**In *Monterey County Business & Workforce Assessment, 2002,* 47 percent of employers reported that they had a difficult time finding qualified employees.**

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[78] Jill Elswick. *Benefitnews.com*. "In-A-Pinch Perks: More Employers Offering Back-up Child Care." July 18, 2003. In 2002, 15 percent of all employers surveyed offered back-up child care services.

[79] Cynthia Stormer, Manager, Training and Communication, Household International. Interview, National Economic Development and Law Center (NEDLC), 2003.

find and difficult to maintain." Nearly half of the businesses surveyed (47 percent) reported a difficulty in finding qualified staff.[80]

Because California recognizes the importance of child care for working parents attending school, community colleges across the state receive government funds to support the child care needs of their students. The Monterey Peninsula College's Children's Center serves up to 78 preschoolers infants, toddlers, and preschoolers at one time, and enables roughly 65-70 low income parents to attend school per year. Child care provided to students is predominately subsidized and is paid for by the college and the State's Chancellor's Office. Total funding for Monterey Peninsula College's Children Center equals $209,000 per year. The majority of the enrollment is extended to student-parents (90 percent), although some faculty and staff have children enrolled in these programs.[81]

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 the high-quality program achieved higher educational and employment status than similar mothers whose children were not in the high-quality program.[82]

### Developing the Future Workforce

In addition to supporting working parents, child care is a crucial component of developing the future workforce. Schools and universities receive many public investments because their role in educating and preparing children for the future labor market is clear. 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.

**In a survey of kindergarten teachers in Monterey County, teachers reported that only 45 percent of all children entering kindergarten were considered adequately prepared. Children lacked pre-academic skills, behavioral skills, attention span, and social skills. South County experiences the lowest percentage of entering students who are not prepared to learn.**

High-quality child care programs improve children's readiness to learn once they enter the public school system, but these programs are not widely available locally or nationally.[83] In a survey of kindergarten teachers in Monterey County, teachers reported that only 45 percent of their students were prepared for kindergarten.[84] Conversely, a

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[80] Economic Competitiveness Group. *Monterey County Business & Workforce Assessment, 2002.*

[81] Kathy Nyznk, Monterey Peninsula College Children's Center. Interview, National Economic Development and Law Center (NEDLC) in June, 2003.

[82] Discussion of results of *The Abecedarian Study*, as cited on www.fpg.unc.edu/~abc/.

[83] The Children's Network of Monterey County. *Monterey County Children's Report Card, 2002.* This report acknowledges that there is a shortage of "quality…child care in Monterey County."

[84] Tellus Diganos. *The Monterey County Children and Youth Report Card.*

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.

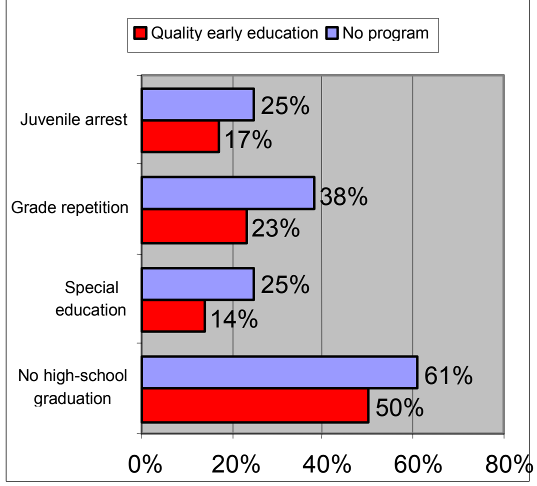
A study by the University of North Carolina found that children in high quality child care, showed greater language development, mathematical ability, thinking and attention skills, and fewer behavioral problems in kindergarten than children in informal care settings.[85] Another well- known pre-school 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.[86]

***Example*: In 2001, First 5 California, also known as the California Children and Families Commission, approved $200 million for a 4-year School Readiness Initiative that spans across California. As a result, *First 5 Monterey County* received approximately $813,000 to implement the first year of the School Readiness Initiative. Approximately $3 million dollars per year in local programs and services grants match these funds. School Readiness Initiative dollars will be used by *First 5 Monterey County* to improve children's readiness to enter kindergarten by providing direct services to families, and ensuring that parents recognize their role in the their children's development.**

### 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 not offered the program. The

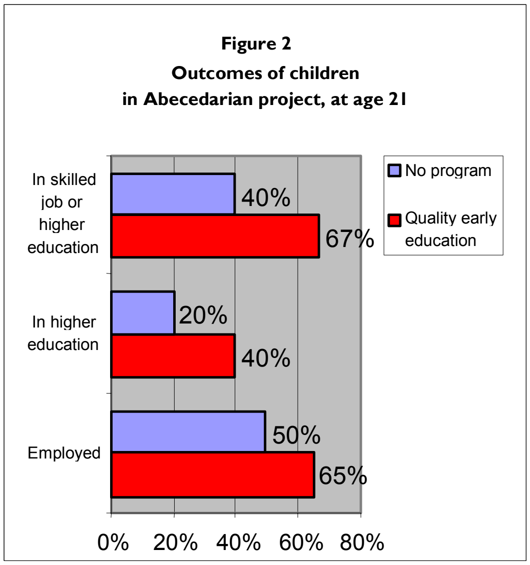
**Figure 1**
**Outcomes, at school exit, of children in Chicago pre-school study**

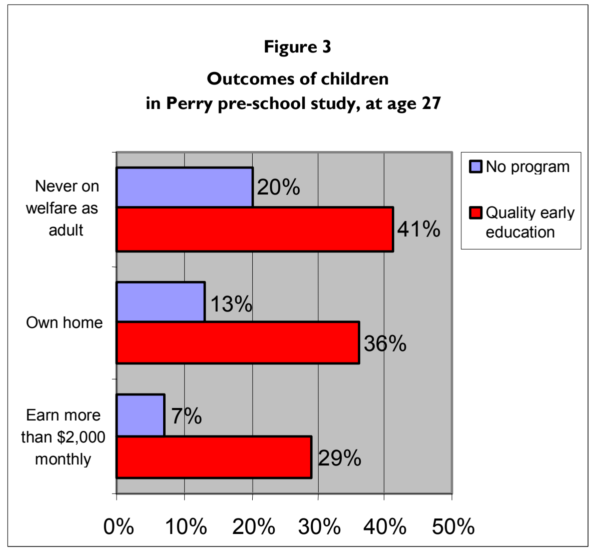



[85] Ellen S. Peisner-Feinberg, et al, *The Children of the Cost, Quality and Outcomes Study Go To School,* Chapel Hill, NC: University of North Carolina, June 1999.
[86] www.fpg.unc.edu/~abc/.

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).[87]

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).[88]




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 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).[89]

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).[90] [91] [92] These savings indicate that for every dollar

[87] 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.

[88] www.fpg.unc.edu/~abc/. All the values in Figure 2 are statistically significant.

[89] 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.

[90] 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.

[91] 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.

spent on child care now, as much as seven dollars are saved in public expense in later years.

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.[93]

**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 |

**"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 as a result save public sector dollars. Nationally, nearly seven 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.[94]

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

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[92] 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.

[93] 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.

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

each week in self-care.[95] 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.[96]

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.[97]

**Section Summary**

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 turn over. Investing in child care saves 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 Monterey County.

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[95] 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.

[96] 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.

[97] 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.

## Section 5
## Conclusion: Strategies & Recommendations

### Conclusion

Monterey 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 1,146 local jobs and generates roughly $46.3 million dollars per year in gross receipts. Annually, $28 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. In total, working parents using licensed child care in Monterey County earned an estimated $216 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 traditional 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 for low income children saves as much as seven dollars in future public spending.

Monterey County's 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 the growing need. Without local long-term planning using a collaboration of stakeholders to address barriers to child care affordability, sustainability, and supply-building, the Monterey County child care industry and the county economy as a whole will not meet their potential in the next few years.

### Local Constraints on Child Care in Monterey County

- Private sector, government, and community leaders are not actively engaged 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 Monterey County. Escalating housing costs consume a more and more disproportionate share of the household income of low- and moderate-income families.
- Welfare reform and the increase of low-wage jobs in Monterey County dramatically increase the need for subsidized child care. The current supply does not meet the demand for affordable, quality child care in the county, and the demand is growing.

- Child care centers and family child care homes struggle to attract and retain qualified staff.[98] 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.
- Monterey County's demand for center-based, non-traditional hours, and back-up child care exceeds the supply.
- The child care infrastructure in Monterey County is fragmented.

**Recommendations**
Child care is part of the economic infrastructure of Monterey County and needs to be incorporated into both short- and long-term economic development planning. Financial institutions, businesses, government leaders, and those working directly in the child care industry must work together to ensure that the needs of the county's families are met.

**A collaborative partnership with clearly identified leadership should be formed between business leaders, government leaders, financial institutions, child care leaders, and other nontraditional stakeholders to ensure that Monterey County's child care infrastructure is meeting the needs of working parents and their children.**

### What Businesses Can Do to Support Child Care

- Work with City Council representatives and Chambers of Commerce to get child care issues on the policy agenda.
- Offer technical assistance and business skills training to child care providers. Businesses that already offer professional development and business training to employees are especially primed to offer this service.
- Create flexible personnel policies and provide sick/personal leave to meet child care needs.
- Partner with dependent care resource and referral agencies and provide employees 24 hour on-line access to local provider data.
- Offer dependent care financial assistance by creating a dependent care pre-tax account or a child care voucher program.
- Develop a network of child care providers for your employees or contract for on or near-site child care

[98] The Center for the Child Care Workforce, the California Child Care Resource and Referral Network, and the Center for the Study of Child Care Employment at UC Berkeley. *Center Based Child Care Staff in Monterey County* and *Family Child Care Providers and Assistants in Monterey County, 2001*. These studies demonstrated the following: only 51 percent of child care centers in the county offered benefits to their employees and 87 percent of family child care assistants did not receive health benefits; child care centers experienced a 28 percent yearly turnover rate in teaching staff; and nine percent of family child care providers had been in the child care business for less than a year.

- Help create innovative public/private partnerships to purchase property, develop facilities, and/or strengthen existing child care enterprises.

### 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 for child care providers.

### What Government Can Do to Support Child Care

- Establish child care funds to help make child care affordable for low-income families and to assist child care providers seeking facilities financing.
- Incorporate language that supports child care development into the General Plan of the county and every city.
- Hire a child care coordinator for each region in the county.
- 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. Find vacant buildings and develop a non-profit child care business.
- Provide incentives for businesses adopting family friendly benefits for their employees.
- Assist lending institutions that provide low interest loans and/or micro loans to child care providers. Local government can match micro loans or provide loan guarantees to banks working with child care providers.

### How the Child Care Industry Can Be More Effective

- Recognize that child care providers are an economic force in Monterey County.
- Work with businesses and financial institutions to provide business skills and technical assistance for facility financing to child care providers and employees.
- Prioritize the development of center-based child care programs that serve different ages of children.
- 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 they already supply.

## Appendix A

### Methodology for Calculating Gross Receipts and 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 Monterey County Child Care Resource and Referral Program (R&R). Each regional resource and referral agency (R&R) is required by California law to maintain a database containing licensed child care capacity, average costs, vacancies, and enrollment. For this report, enrollment and capacity were derived from June 2003 data from the Monterey County Child Care Resource and Referral Program. Information on cost was derived from a survey conducted by the California Child Care Resource and Referral Network, entitled *Regional Market Rate Survey for California Child Care Providers, 2002*.

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.

### <u>Gross Receipts</u>

Gross receipts estimates for family child care homes, child care centers, California Child Development Centers (state pre-schools and general child development centers), Head Start programs, and Migrant Head Start programs are based on one simple calculation:

**Enrollment x Average Cost/Child/Year = Gross Receipts**

<u>Enrollment</u>

Enrollment numbers are derived from the countywide resource and referral database which tracks enrollment in licensed child care centers, licensed family child care homes, California Child Development Centers (state pre-schools and general child development centers, Head Start programs, and Migrant Head Start programs in each county by children's age groups (infant, toddler, pre-school-age child, and school-age child). The database is periodically updated with provider information, so it can give a "snapshot" of enrollment at a given time.

#### Average/Cost/Child/Year

In order to calculate the average yearly rate for each type of care and each age group we relied on *Regional Market Rate Survey for California Child Care Providers, 2002* from the California Child Care Resource and Referral Network. The survey reports full- and part-time hourly, daily, weekly, and monthly rates for each county. A yearly average was taken from these rates and used in the gross receipts calculations.

## Direct Employment in Licensed Child Care

### *Family Child Care Homes*

| | | |
|---|---|---|
| Family Child Care Homes licensed for (6-8) | = | 1 Employee |
| Family Child Care Homes licensed for (12-14) | = | 2 Employees |

### *Subsidized Centers, Non-Subsidized Centers, Head Start, Migrant Head Start, State Pre-schools/Child Development 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.

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 (subsidized) = (1 employee for every 14 children) x (FTE for staff)
   Title 22 (non subsidized) = (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 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: **# of state-funded centers + number of non-state funded centers with over 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**

## 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 Monterey 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 1,446 jobs in licensed child care, 290 full-time equivalent (FTE) indirect jobs are sustained by licensed child care. For example, these include jobs in real estate (19 jobs), accounting and book keeping (20 jobs), and maintenance and repair services (12 jobs).

Based on a direct employment estimate of 1,446 jobs in licensed child care, an additional 352 FTE induced jobs are sustained by the licensed child care industry. These include jobs in health care (49 jobs) and restaurants and bars (42 jobs).