

# THE ECONOMIC IMPACT OF THE CHILD CARE INDUSTRY IN SANTA CLARA COUNTY

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Early Care and Education and Programs for School-age Youth

## *Executive Summary and Policy Recommendations*

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

Prepared by

NATIONAL ECONOMIC DEVELOPMENT AND LAW CENTER



*Full report available at [www.childcareoptions.org](http://www.childcareoptions.org)*

## BACKGROUND

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This report is based on a series of reports originally produced by the Local Investment in Child Care (LINCC) Project, launched in 1997 with support from the David and Lucile Packard Foundation, and designed to incorporate child care into local economic development planning. As part of the LINCC project, the National Economic Development and Law Center (NEDLC) produced Economic Impact Reports for eight counties, including Santa Clara County in 1999. The reports articulate child care in economic development terms and quantify the ways in which the child care industry is critical to the local economy. The reports also help to build local partnerships aimed at increasing the child care industry's capacity to respond to shifting child care needs. The Local Child Care Planning Council of Santa Clara County's LINCC project contracted NEDLC to create this report, (an update to the original report published in 1999) quantifying the economic impact of the child care industry in Santa Clara County in 2002.

## ACKNOWLEDGMENTS

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Without the support of the David and Lucile Packard Foundation, the Local Investment in Child Care (LINCC) project would not have been possible. We gratefully acknowledge their support. Special thanks to Choices for Children and the volunteers of the Local Planning Council for giving time so generously to the LINCC Project throughout the 2001-2003 grant cycle.

## ADVISORY BOARD

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Cathy Boettcher  
Local Planning Council

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Local Planning Council

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Department of Social Services

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Mentor Graphics Early Learning Center

Debra Petersen  
LINCC Coordinator, Santa Clara County

Martin Selznick  
Local Planning Council

## NATIONAL ECONOMIC DEVELOPMENT AND LAW CENTER

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Brentt Brown  
Program Specialist, Child Care

Carolyn Hayden  
Vice-President

Dionne Hayden  
Intern, Child Care

James W. Head  
President

Saskia Traill  
Senior Program Specialist, Child Care

Jen Wohl  
Program Manager, Child Care

National Economic Development and Law Center  
2201 Broadway, Suite 815 Oakland, CA 94612  
Ph: (510) 251-2600 Fax: (510) 251-0600 [www.nedlc.org](http://www.nedlc.org)



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## Executive Summary

### The Economic Impact of the Child Care Industry in Santa Clara County

Santa Clara County's child care industry is critical to the county's overall economic vitality and quality of life. Child care is an income-generating, job-creating industry in its own right, and enables parents to work throughout Santa Clara County's industries. Stable, high-quality child care also increases worker productivity, reduces turnover and absenteeism and increases loyalty and motivation. Demographic and economic trends show that over the next ten years, Santa Clara County will continue to see job and population growth despite a current slowdown. The current supply of child care will be unable to meet this growing need, and partnerships between the child care industry, government, and business must be formed increase child care supply and affordability for Santa Clara County.

### Defining Child Care

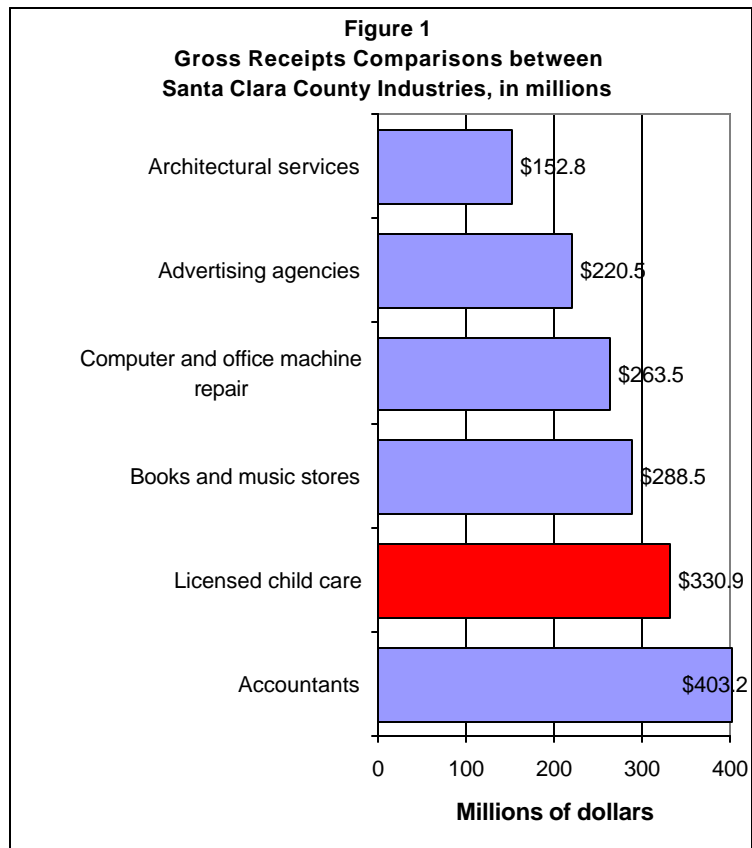
Child care includes a range of services that educate and nurture children, while at the same time, enable parents to work or attend school. Early care and education (ages 0 to 5), as well as programs for school-age youth (ages 6 to 14), make up the child care industry.

### Gross Receipts of the Child Care Industry

The licensed child care industry, which currently includes 575 child care centers and 1,333 family child care homes, generates approximately \$331 million dollars per year in gross receipts, including \$273.4 million for child care centers and \$57.5 million for family child care homes. When compared to other industries in Santa Clara County, this industry is larger than architectural services or advertising agencies and is similar to all sales from books and music stores and accounting service. (see Figure 1).

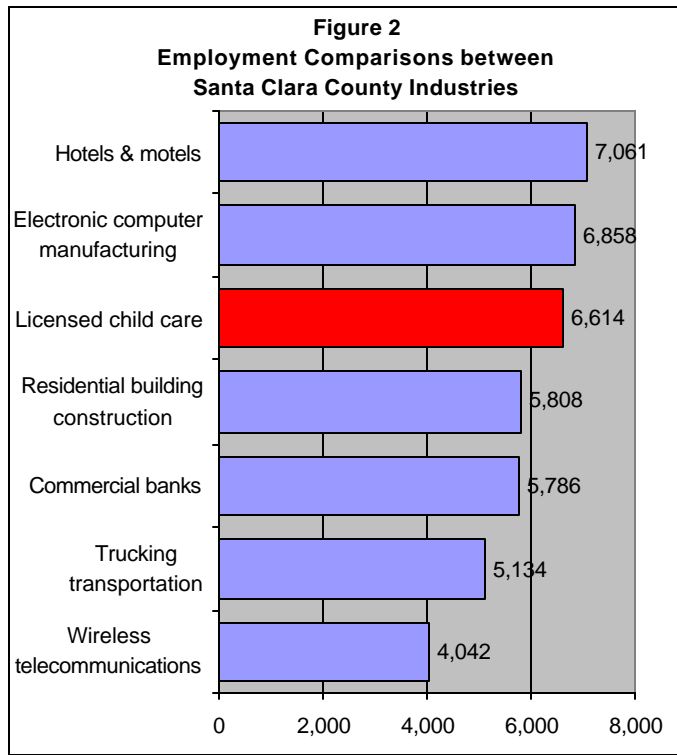
### Employment

Approximately 6,614 full-time equivalent (FTE) local jobs are directly supported by the licensed child care industry. Furthermore, this industry supports as many jobs as residential building construction or computer manufacturing in the county (see Figure 2), and it supports many more jobs than trucking or wireless telecommunications industries.



All gross receipts values besides the child care industry data are from the 1997 Economic Census, adjusted to 2002.

Through the purchase of other goods and services within the county, the licensed child care industry supports an additional 3,238 FTE jobs in indirect and induced employment.



Employment comparisons are from the Census Bureau, *County Business Patterns, Santa Clara County, 2000*, and were adjusted to 2002.

### Federal and State Subsidies

Annually, \$71.7 million is brought into the county through federal and state subsidies. These subsidies are used to provide low-income families with affordable licensed and license-exempt child care. Currently, there are over 7,000 eligible children who are on waiting lists for subsidized child care slots. By increasing the number of subsidized slots, more parents can enter the labor force in the county.

### Increasing Productivity

In addition to playing a critical role in the Santa Clara County economy, the child care industry helps sustain the county's growing workforce by increasing productivity of working parents. Stable, quality child care reduces worker absenteeism related to child care needs, increases company loyalty and motivation, and reduces turnover. A national survey found that two-thirds of

employers reported that child care benefits saved money or were cost neutral.

### Increasing Economic Output

By enabling parents to enter the workforce or return to it sooner, licensed child care increases the overall economic output of Santa Clara County. An analysis of the labor income of working parents who use licensed child care and the output that they produce by working across all of the county's industries shows that these working parents play an enormous role in the county economy. Specifically, working parents using licensed child care earn almost \$1.07 billion annually. The economic effects of the labor of working parents across all industries in Santa Clara County indicate that the direct, indirect, and induced economic effects from licensed child care:

- Increase industry output by \$7.22 billion;
- Contribute \$4.50 billion value added to the gross product in the county;
- Create \$2.97 billion in total direct, indirect and induced income;
- Provide \$1.22 billion in property income;
- Generate \$309 million in indirect tax revenues; and
- Support approximately 45,900 jobs (see Table 1).

<b>Table 1</b> <b>Economic Output of Working Parents using Licensed Child Care in Santa Clara County</b>	
<b>Economic variable</b>	<b>Contribution to Santa Clara County Economy<sup>1</sup></b>
Industry Output	\$7.22 billion
Value Added to Gross Product	\$4.50 billion
Labor Income	\$2.97 billion
Property Income	\$1.22 billion
Indirect Tax Revenues	\$308 million
Employment	45,892 FTE jobs

**Increasing school readiness**

High-quality child care increases school readiness and is an important building block in developing the future workforce in Santa Clara County. Investing in child care improves the success of children in the traditional K-12 public education system by raising test scores and high-school graduation rates, and by lowering the number of grade-repeating and special-education students. Children in quality child care are also less likely than their peers to commit crimes or enter the welfare system later in life. Cost-benefit analyses across a number of long-term studies indicate that every dollar spent on quality child care saves seven dollars in future public spending in education, social services, and criminal justice (see Table 2).

<b>Table 2</b> <b>Economic benefits of investing in child care</b>		
	Cost	Benefit
Chicago CPC study	\$7,000	\$48,000
Perry pre-school project	\$12,000	\$108,000
Abecedarian project	\$33,000	\$123,000

<sup>1</sup> Please see Appendix B for an explanation of the IMPLAN model.



## **Demographic and Economic Outlook for Santa Clara County**

The demographic and economic profile of Santa Clara County indicates an increasing demand for child care across the county over the next decade. The rate of job growth in Silicon Valley in the next ten years is estimated at 13%, adding 183,000 new jobs by 2010. Many of these workers will be parents; currently, in Santa Clara County, a full 53% of children have all parents in the workforce. Demographically, Santa Clara County is predicted to grow 15% in its population over the next ten years, adding 160,000 new children age 0 to 5 by 2010. These children will need quality early education opportunities to enter the traditional K-12 education system ready to learn. Currently, there are 1,908 child care facilities in Santa Clara County, which care for nearly 45,000 children.

The demographic and economic profile of Santa Clara County indicates that, despite a current downturn in the economy, there is an increasing need for affordable, accessible, quality child care across the county. On its own, the child care industry is unable to expand at a rate adequate to meet this growing need for child care services. Without local, long-term planning with a collaboration of stakeholders to address barriers to child care affordability, sustainability, and supply-building, the Santa Clara County child care industry, and the county economy as a whole, will suffer a setback.

## **Local Constraints on Child Care Growth in Santa Clara County**

Despite record growth of the child care industry in recent years, there remain significant barriers to meeting the child care need. The following factors should be considered in assessing the need to invest more in the child care system:

- Both children and parents suffer from inadequate investments in child care. Parents cannot be reliable, productive workers without dependable child care. If children do not receive quality child care, they face increased difficulty succeeding in school.
- Neither parents nor child care providers can solve the challenge of high child care costs on their own. The federal government, states, local communities, and the private sector must all play larger roles in helping families afford quality child care and creating enough child care to support economic growth.
- Child care is becoming increasingly less affordable in relation to the cost of living in Santa Clara County, as 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 Santa Clara 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 workforce retention and growth are threatened by the increasing gulf between the low wages of the child care industry and Santa Clara County's cost of living. Child care wages are not adequate to encourage long commutes from more affordable housing markets to child care centers in more affluent communities.
- Just as transportation problems make it harder to get to and from work, they will make it harder to get to and from child care facilities as well.



## Recommendations

Child care is part of the economic infrastructure of Santa Clara 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 plan together to ensure that the needs of Santa Clara County's parents are met.

Incorporating child care into economic development planning and investment takes concerted time and effort and a collaboration between all stakeholders of the child care industry: financial institutions, businesses, governments, child care providers, and communities. Many jurisdictions across the country realize the value of child care to their economy and community well-being, and bring new partners to the table to tackle the shortage of quality child care. While every community faces different obstacles in the delivery of quality care services, a number of strategies have proven effective in more deeply integrating child care into the economic development planning process. The following are examples of efforts in California communities to strengthen the child care infrastructure:

- The City of Milpitas in Santa Clara County adopted a Child Care Master Plan developed by a community task force. The Plan incorporates meaningful child care language into the City's Consolidated Plan 2005. It also establishes a policy of fast-tracking the planning and permitting process for child care facilities, and updates the zoning ordinance to establish a Use Permit process for large family child care homes. Child care is rated as a high priority.
- The City of Sunnyvale has a Child Care Manager is implementing several initiatives that are supported by the City. For example, the City is coordinating a workshop series for family child care providers and formally recognizing family and center based child care providers who are committed to enhancing the quality of child care they provide by attending professional development courses.
- The City of San Jose has drafted a strategic plan "Investing in Our Future," developed with community input, as a blueprint for addressing the city's child care needs. The San Jose Child Care Commission and the Office of Child Care will work together to develop a new master plan for child care for the city based on the strategic plan.
- Child care, for the first time, is a traffic mitigation measure in San Mateo County. The City/County Association of Governments for San Mateo County (C/CAG) adopted child care as a mitigation measure and incentive in the C/CAG Transportation Demand Management Program. The measure applies to all new large developments throughout the county.
- The Santa Cruz Community Credit Union tripled the size of its loan fund for child care providers over the past two years. The Credit Union now has \$150,000 in loan funds, continues operating with an extremely low default rate, and is pursuing new funding sources between \$300,000 and \$500,000.
- The Kern County Local Investment in Child Care Project provides training workshops in both Spanish and English to assist child care providers in understanding fundamental business principles. To date, over 400 participants have been trained in bookkeeping, understanding taxes, and marketing a child care business. These trainings are held in collaboration with the Small Business Development Center.



These examples are the result of a collaboration or partnership between financial institutions, businesses, government leaders, and the child care industry to strengthen the child care economic infrastructure. By combining the expertise of these different areas, the child care industry can meet Santa Clara County's needs. There are a number of specific areas in which various stakeholders can support child care.

### **Financial institutions recommendations**

Financial institutions have often perceived child care businesses as high-risk, and child care providers have often not thought of themselves as businesses that can carry debt. Programs that have developed loan funds for child care providers with business training, however, have been very successful.

- 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.

### **Business recommendations**

There are a wide range of options businesses can choose from to ensure that Santa Clara County has an adequate child care infrastructure for their employees.

- Become a partner in long-term planning and strategizing about strengthening the child care infrastructure. Join the Local Planning Council's Economic Task Force.
- Help create innovative public/private partnerships to purchase property, develop facilities, and/or strengthen existing child care enterprises.
- Work with City Council representatives and Chambers of Commerce to get child care issues on the policy agenda.
- Include child care facilities as part of commercial and industrial developments, to benefit the company, its employees, and children alike.
- Provide child care benefits to employees, ranging from flexible work hours or emergency back-up care, to pre-tax "cafeteria" plans that include child care options.

### **Government recommendations**

Like transportation, housing, public works, and other economic infrastructures, the child care needs of Santa Clara County residents will not be met without government support and planning.

- Hire a child care coordinator in each city.
- Streamline and coordinate the permitting and planning process to alleviate conflicting requirements from different government agencies, restrictive zoning regulation, and lengthy, costly, and complex approval processes.
- Incorporate language that supports child care development into the General Plan of the County and every city.
- Develop strategies for sustained funding that provides 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.
- Develop strategies to make child care affordable for all families in Santa Clara County. These strategies will enable parents to work and spend more disposable income in the local economy.

Efforts to strengthen the child care infrastructure benefit the child care industry, financing institutions, local government, and the business community alike. The collaborations developed between entities previously disengaged from child care issues serve to educate all of the stakeholders about the importance of a healthy child care infrastructure, and help to develop cost-effective solutions to local shortages in the supply of child care.

The lack of complete data available on the child care industry as a whole has historically made it difficult to precisely assess its contribution to the local economy. As a result, its significance to the health of the local economy is largely unrecognized. The methodologies in this report represent the first serious effort at making such economic assessments of the child care industry. Although more and better data on child care is needed, the analysis presented here demonstrates that child care is not merely a supportive social service, but also an established industry that helps fuel Santa Clara County's overall economic growth. The work presented in this report was made possible by a generous grant from the David and Lucile Packard Foundation. The Santa Clara County LINCC project will lose funding in March, 2002 and seeks community support to continue this great work. The Early Care and Education Industry is an essential part of the Santa Clara County economic infrastructure. Efforts to strengthen this industry will result in a strengthening of the economy as a whole.

Please contact Martin Selznick of the Local Planning Council at (408) 453-6649 to learn how you can support efforts to help improve this important industry.

