

THE ECONOMIC IMPACT OF CHILD CARE IN SAN MATEO COUNTY

KEY FINDINGS

Size

- 1,012 licensed child care establishments (255 centers and 757 family child care homes) care for about 20,700 children in San Mateo County.
- Licensed child care is a \$109 million industry in San Mateo County. Centers account for \$80 million in gross receipts and family child care homes account for \$29 million.
- Parent fees account for more than 80% of the gross receipts of the licensed child care industry.

Employment

- Licensed child care establishments directly employ 3,294 people, about eight-tenths of one percent of civilian employment in San Mateo County, and also create 2,442 jobs in other industries (“indirect” jobs) in the county.
- Statewide, direct child care employment is comparable in size to motion pictures and air transportation.
- For every \$1 million that consumers spend on licensed child care operations in San Mateo County over a one-year period, more than 52 jobs are created, including 22 indirect jobs in other local industries, such as business services, retail trade, and wholesale trade. In contrast, informal, unlicensed care appears to have little, if any, effect on indirect jobs.
- Virtually all jobs supported by the total dollars spent, or final demand, for child care remain in the local community in contrast with other local industries that are more global.
- A capital investment of \$1 million for the construction of child care facilities creates 23 jobs for one year, including more than nine in the construction industry itself.
- Average wages in the child care industry are less than \$15,000 annually and are in the bottom tenth percentile of occupational wages. The average wages of child care direct and indirect employment in San Mateo County amount to about \$19,770—more than the average wages of child care direct employment.

Recent Expansion, Current Shortages, and Projected Future Child Care Needs

- A partner in San Mateo County’s economic growth, the county’s licensed child care industry has accomplished significant expansion, growing its workforce by 67% between 1987 and 1996, compared with overall civilian employment growth of 10% and service sector growth of 28%.
- As of 1994, 54% of San Mateo County’s income-eligible children of working parents were enrolled in subsidized child care and development programs, in contrast with an enrollment rate of 81% in the City and County of San Francisco. Subsidized waiting lists in San Mateo County have been growing steadily since 1993.
- The industry may have already realized much of the expansion that is feasible within the constraints of the county’s existing land use, public finance and local development framework. This is indicated by chronic, consumer-identified shortages in infant care,

subsidized care, and affordable care for families with incomes above subsidy eligibility levels but below the local area median income.

- The county's population growth rate has been at about 0.9% annually since 1990 and is projected to continue to grow at an annual rate of 1.1% between 1996 and 2000.
- Birth rates in San Mateo County have been holding steady at a crude rate of about 10,000 annually, although the percentage of Medi-Cal eligible births has been growing rapidly.
- If local trends correspond to national trends, continued increases in labor force participation rates of San Mateo County women would also contribute to an increase the number of children needing child care. However, the San Mateo County labor force has been growing more slowly overall than the Bay Area's, the state's or the nation's.
- The implementation of welfare reform will increase child care needs, particularly for subsidized care.
- Job growth in the lower-paying service sector and in the transportation sector will increase the need for subsidized and affordable child care supply and child care supply that suits work schedules other than 8 a.m. to 6 p.m.

Local Constraints on Licensed Child Care Growth in San Mateo County

- Effective demand that translates into new child care supply continues to be weakened by San Mateo County's escalating housing costs, as rent and mortgage payments consume a disproportionate share of the household income of low- and moderate-income families.
- The county's high cost of housing has the greatest impact on the child care purchasing power of residents in jobs paying the county's average wage of \$19.50/hour and below. Yet these jobs will account for much of San Mateo County's future job growth.
- The county's low real estate vacancy rates and high land and development costs threaten the retention of existing licensed supply and create barriers to the continued growth of the industry. Growing enrollment and class-size reduction in the public elementary schools is requiring local School Districts to dedicate all available space to regular classrooms and is reducing their role in addressing the facilities needs of the child care industry.
- The county's strong job growth in other, better-paying industries makes it difficult for existing establishments to retain qualified child care workers or recruit new ones for expansion.
- Child care workforce retention and growth are also threatened by the increasing gulf between the low wages of the child care industry and San Mateo's housing market. Yet child care wages are not high enough in general to induce long commutes from more affordable housing markets outside the county, where comparable child care work is also readily available.

Economic Benefits of Local Investment in Licensed Child Care Supply-Building

- Licensed child care is a more stable support for parental employment than informal care and increases worker productivity.
- Like transportation policies and investments that relieve traffic congestion, local policies and investments that support licensed child care supply-building affect the productivity of all of the county's industries and increase the county's economic competitiveness.

- Shortages of infant care, care during nontraditional hours, and care that is affordable by lower-wage workers probably contribute to San Mateo County's slow labor force growth rate, which has been identified as one of the county's greatest barriers to continued economic growth.
- Like land use policies and capital investments to increase affordable housing production, local policies and investments that support child care supply-building enable the county to supply a skilled, local labor force at wage rates that are competitive with other counties. Such policies and investments would help the county to retain and continue to attract high-value-added industries.
- Appropriately targeted investments in child care supply-building would contribute to labor force participation gains among lower-income, moderate-income, and middle-income families in San Mateo County. Such gains would directly increase output, personal income, business formation, and property and sales tax revenues in the county.
- The child care industry captures more than \$22 million in federal and state child care subsidies for low-income working households in San Mateo. Federal and state expenditures for child care are growing but are still well below the amount needed to serve all eligible families.
- Federal and state child care subsidies are, for the most part, not individual entitlements or county or city block grants. Supportive local policies and investments are necessary to help San Mateo County capture a larger share of these much-needed transfer payments for child care.
- When San Mateo County residents use tax-complying—typically licensed—child care establishments, the county gains additional federal and state transfer payments for child care in the form of state and federal tax credits and deductions for child care expenditures.
- Investments in high-quality, licensed child care reduce local public sector expenditures in other categories. One national study, which followed children for over 25 years, found that each dollar spent on high-quality preschool programs saved \$7 in future spending on criminal justice, welfare, and other social programs. Other studies show that licensed child care is often of higher quality than unlicensed care, and thus can be expected to produce more public sector savings.

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GLOSSARY

Term	Definition	Example(s)
Establishment	Individual firm or business selling products, services, or both	McDonalds, Bank of America branch, family child care home
Standard Industrial Classification (SIC)	U.S. Commerce Department system for measuring employment, industries, and output	SIC 8211 (Schools), SIC 37 (Transportation Equipment)
Industry Sector (1 digit SIC)	Major aggregation of industries with similar products and/or services	SIC 3 (Manufacturing), SIC 7, 8 (Services)
Industry Major Group (2 digit SIC)	Aggregation of 3 and/or 4 digit SIC industries	SIC 35 (Industrial Machinery), SIC 83 (Social Services)
Industry (3 and 4 digit SIC)	Most detailed industry level	SIC 3524 (Lawn and Garden Tractor Manufacturing), SIC 8351 (Child Day Care Services)
Civilian Labor Force	Working-aged population looking for work or working	About 15.7 million in California
Labor Force (also Work Force) Participation Rate	Civilian labor force divided by working-aged population	About 67 percent in U.S., California
Civilian Employment	Number of individuals working	About 14.7 million in California
Direct Employment	Employment created by an industry in that industry	Child care center workers and family child care providers in the child care industry
Indirect Employment	Employment created by an industry in related or supporting industries through the purchase of goods and/or services	Construction employment due to refurbishing a child care facility
Unemployment Rate	Number of unemployed divided by civilian labor force	About 6.5 percent in California in April, 1997
Output	Total value of goods and/or services produced	At least \$40 billion nationally for child care industry
Final Demand	Purchases of final product in an industry category	Purchases of child care, cheeseburgers
Employment Multiplier Effect	Shows total jobs—direct and indirect—created by \$1 million in final demand for an industry	52 jobs are created by \$1 million of final demand in the child care industry in San Mateo County.
Inflation	Change in general price level	Consumer Price Index (CPI), shows price increases/decreases for most consumers
Real dollars	Dollars adjusted for the effects of inflation	See Appendix G.

Term	Definition	Example(s)
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Deflator	Allows nominal figures to be expressed in real dollars	See Appendix G.
Wage	Hourly, weekly, or annual pecuniary compensation	Averages \$32,000 in California
Job Quality	Considers wages, benefits, and other characteristics, such as tenure, etc.	
Subsidy Capture Rate	Percent of income-eligible children who actually receive subsidized child care or early childhood education.	In San Mateo County, 51% of the eligible 2-5 year olds are enrolled in subsidized State Preschool, child care, or Head Start. In San Francisco, the rate is 81%.
Licensed Child Care	Child care programs in a center or provider's home which follow state regulations for staff to child ratios, educational standards, program structure, and facilities.	An estimated 73% of children in child care outside the family in San Mateo County are in licensed care.
License-Exempt Child Care	Child care which under state law does not require a license.	A family child care home with only the provider's children and children from one other family; a school-based extended day program.
Unlicensed Non-Exempt Child Care	Child care providers that operate without a required license and thereby avoid regulation.	A family child care home with 7 children from 3 families and no license.
Child Care Subsidies	Financial assistance for child care to families who meet income and employment eligibility requirements. Available for care received from licensed centers and family child care homes and certain license exempt caregivers.	The California State Department of Education's federally financed General Child Care Program provides full-day child care for children with employed parents with family income below 75% of the state median income.

I. INTRODUCTION

This report has two purposes:

- To quantify the local economic effects of licensed child care in San Mateo County.
- To assess how local policies and investments to support licensed child care supply-building would affect local economic development.

“Child care” encompasses a range of services used to educate and nurture young children, while allowing parents to go to work or school. For purposes of this report, child care includes not only full-day care, but part-day child development programs (such as Head Start, State Pre-School, and other pre-schools) because they are part of the system of care that parents rely on during working hours.

This report measures the overall economic effects of child care by the size of the industry (both output and employment), changes in these measures over time, global vs. local integration of the industry, and occupational characteristics. The report identifies some of the local constraints on the industry’s ability to develop adequate supply for several chronic, consumer-identified shortages. The report assesses child care’s impact on local economic development by examining its effect on local job creation and labor force participation, the county’s rate of capture of limited federal and state child care transfer payments, tax revenues, and local government expenditures in other categories.

The report explores the differing effects of licensed and unlicensed child care on the local economy. Licensed establishments include most child care centers and many home-based providers, also known as family child care homes, which can be licensed to serve twelve (or fourteen) children¹, six (or eight)

¹ The California Health and Safety Code was recently amended to permit family child care homes licensed for twelve to serve an additional two school-aged children for a total maximum enrollment of fourteen. Homes licensed for six can also add two additional school-aged children

children, or four infant/toddlers. Licensed child care services are provided by nonprofit corporations, for-profit corporations, public agencies, and sole proprietors. Although the form of legal ownership may vary, all licensed child care establishments contend with the same business challenge:

- How to generate adequate revenues from parent fees (or transfer payments that substitute, in whole or in part, for parent fees)
- That are competitive with the formal—and informal—providers in the same market area
- For the maximum number and most desirable age mix of children
- Permitted in the available indoor and outdoor square footage of a licensable facility
- With just enough properly credentialed workers to meet minimum staff-child ratios for regulatory compliance and competitive quality.

Unlicensed child care includes license-exempt care outside of the child's home,² for example, in the home of a relative, a neighbor, or a “babysitter” who may be caring for the children of one family in addition to her own. It also includes license-exempt care provided at the child's home by, for example, nannies, babysitters, and relatives³. Specific kinds of centers (such as school-based extended day programs and certain recreation programs) are also exempt from licensing. Approximately 76 such centers care for several thousand children in San Mateo County. They are treated in this report as part of the county's

for a total of eight. If the home elects this increased enrollment, new restrictions limit the number of children under the age of two that can be cared for.

² In San Mateo County, approximately 7,500 children between the ages of 0 and 13 with two parents in the workforce (or a single parent in the workforce) are in unlicensed (including license-exempt) care outside the home, while more than 20,000 are in licensed care outside the home. California Child Care Resource and Referral Network, *The California Child Care Portfolio*, 1997.

³ In San Mateo County, approximately 50,000 children between the ages of 0 and 13 with two parents in the workforce (or a single parent in the workforce) are not in care outside the home. In-home care can include a variety of paid and unpaid arrangements: a paid babysitter or nanny may come into the home, the parents may have arranged their work hours so that one parent is at home when the children are at home, an older sibling or other relative may care for the children, or the children, typically school-aged, may be in self-care (“latch-key”). California Child Care Resource and Referral Network, *The California Child Care Portfolio*, 1997.

licensed supply because of their similar operating, workforce, and financial requirements. In addition to license-exempt care, unlicensed child care includes care that, because of group size and other factors, is required to be licensed but is not.

This report seeks to quantify some of the differing local economic effects of licensed establishments (including license-exempt centers) and unlicensed, informal care because several factors threaten the retention and growth of the licensed child care industry in San Mateo County. Most fundamentally, the licensed child care industry is affected by the reality that, in setting consumer fees, it must compete with the lower cost, in many cases lesser quality, unregulated individual caregivers who offer care both inside and outside the child's home. Thus, the informal providers undermine the market feasibility of licensed establishments. In contrast with unregulated, informal caregivers, the licensed side of the industry, especially the center-based providers, must make capital investments in buildings and equipment and attract and retain educated, credentialed workers in order to stay in business.

This industry-wide problem is compounded in San Mateo County because, as is discussed in the report, high housing costs constrain the ability of all consumers, but especially lower paid service workers, to allocate more household income to child care expenses. As housing expenses rise, consumers face pressure to seek out lower cost child care arrangements, even when their preference is for licensed care. Yet for every percentage gain in market share that is made by the unregulated, informal side of the industry because of these factors, it becomes even more difficult for the county's licensed establishments to charge the fees that are necessary to comply with minimum quality standards.

Exacerbating this problem, San Mateo County's low real estate vacancy rates and high land and development costs make it difficult to develop (or even retain) the facilities required for licensed centers to operate. And its expensive housing market means that child care workers, both center employees and family child care operators, increasingly find it too costly to live in San Mateo County.

They may be driven either to leave the field for a higher paid occupation or to leave San Mateo County for a neighboring county with lower housing and living costs and comparable child care employment opportunities. The county's explosive rate of job growth simply exacerbates the difficulty that the licensed child care industry faces in retaining qualified staff.

This report explores some of the reasons why, without local intervention to address these barriers, the result may be the erosion of the existing supply of licensed establishments and the failure to develop new licensed supply adequate to meet current consumer-identified shortages, as well as new demand. San Mateo residents who would prefer stable, licensed child care may be forced to prolong their period of separation from the labor force following childbirth, reducing the local labor force at a time when its slow rate of growth has been identified as one of the greatest barriers to San Mateo County's continued economic development.

The alternative is for those consumers to rely on an unstable pool of relatives, babysitters, and other informal caregivers. But that pool is itself shrinking because of San Mateo County's very low unemployment rate. Extensive research has shown that, even if available to parents, such informal care does not achieve the same positive child outcomes as quality, licensed care. Its instability affects the parent's productivity and advancement in the workplace. Reliance on informal caregivers also impairs the county's capture of expanding federal and state child care transfer payments, and increases county and city public sector expenditures in other areas.

II. THE ECONOMY OF SAN MATEO COUNTY

Basic trends in the San Mateo County economy provide an important context for understanding the local child care industry because child care, in addition to its child development function, is an essential support for labor force participation and local economic development. This section examines the county's overall economic structure, including employment, key industries, and demographics, and explores the implications of those trends for the child care industry.

EMPLOYMENT AND INDUSTRY

During the 1990s, San Mateo County has experienced steady economic growth, outpacing the U.S., California and the rest of the Bay Area.⁴ Its per capita income is 50% greater than the national per capita income, and second among Bay Area counties only to Marin.⁵ The countywide unemployment rate in April 1997 was just under 3 percent, about half the state average. In addition:

- New job growth in San Mateo County is expected to greatly exceed the local labor market supply. 42,000 additional residents of San Mateo County will become employed between 1995 and 2015, while the county is projected to produce 87,400 new jobs during that period.⁶
- Redwood City is expected to account for 14 percent of the county's projected new job growth between 1995 and 2014.⁷
- As the last remaining part of the county with significant development potential, extraordinary job growth is also expected in East Palo Alto⁸,

⁴ San Mateo County Economic Development Association (SAMCEDA), *Economic Indicators and Outlook, San Mateo County, California*, p. 13.

⁵ *Id.*, p. 13.

⁶ Association of Bay Area Governments, *Projections 96*, p. 224.

⁷ *Id.*, p. 224.

⁸ *Id.*, p. 224.

now the site of the county's highest unemployment rate, estimated in April 1997 at 7.3 percent.⁹

- The service sector provides the most jobs in San Mateo County (more than 100,000 in 1996),¹⁰ and continues to enjoy the fastest rate of growth of any sector.
- Collectively, the transportation sector and the business services industry will account for 46% of San Mateo County's new job demand¹¹.
- Employment associated with San Francisco International Airport contributes to the important role of the county's transportation sector, which was relatively unaffected by the economic downturn of the first half of the decade and should continue to be a steadying influence even when economic growth in other categories slows.¹²
- Available jobs are holding steady in the high wage, high technology industries, but the productivity gains in that sector have not been accompanied by comparable job creation gains.¹³
- Strong economic growth is triggering an undersupply of commercial, office and residential real estate.¹⁴
- Housing costs in San Mateo County are among the highest in the country, apartment vacancy rates are under 2%, and rental rates increased by 20% in the first six months of 1996.¹⁵

⁹ Economic Development Department (<http://www.calmis.cahwnet.gov>)

¹⁰ Note that ABAG, p. 23, estimates the 1995 employment in the service sector at more than 100,000, not including business services, which it estimates at more than 35,000. However, SAMCEDA estimates service sector employment at about 111,000 in 199y including 14,000 in business services. SAMCEDA, p. 23. This discrepancy may arise from differences in accounting for business services, which represents an amalgam of local activities that support basic industries in the county, for example, legal services, printing and publishing, accounting, etc.

¹¹ ABAG, p. 224.

¹² ABAG, p. 224.

¹³ ABAG, p. 1. Although the comment is made with reference to the Bay Area in general, the specific forecast of available jobs in high technology in San Mateo County at p. 223 does not show significant additional job creation.

¹⁴ SAMCEDA, p. 24.

Table B.2, in Appendix B, contains employment information for all industries in the county from 1995.

DEMOGRAPHICS

San Mateo County demographic characteristics have significant implications for projecting future demand for child care:

- Between 1990 and 1995, San Mateo County's population grew from 649,623 to 696,450, and it is expected to grow by the end of the decade to a total population of 727,300.¹⁶ Although the county's rate of growth slowed during the economic downturn, for the entire decade it is expected to be close to the national rate of growth, at about 0.9% annually.¹⁷
- Although the California Department of Finance has projected a decline in birth rates in San Mateo County, local Health Department statistics show that the birth rate has been holding steady at about 10,000 births annually for several years.
- Population growth is also affected by total net migration which is now positive for San Mateo County, in contrast with recent years where negative domestic migration (people leaving the county for other counties in the U.S. in excess of those entering it) outstripped net foreign migration (people entering the county from other countries in excess of those leaving the county for other countries).
- Household size is also continuing to increase, growing from 2.64 persons for household in 1990 to a projected 2.79 in 2000.¹⁸
- Mean, or average, household income in San Mateo County is \$77,800,¹⁹ among the highest in the state, but it masks an increasing disparity of

¹⁵ SAMCEDA, p. 26 and 27.

¹⁶ ABAG, p. 234.

¹⁷ SAMCEDA, p. 16.

¹⁸ ABAG, p. 225.

¹⁹ ABAG, p. 223.

income attributable to the county's dual labor market. As of 1996, the local median household income was \$61,300.²⁰

- Although the county's poverty rate in 1990 was lower than the state average, the number of Medi-Cal eligible births since then has been growing at a faster rate than in any other Bay Area county or the state.
- Implementation of K-3 class-size reduction in the public schools, as well as continued modest growth in the school-aged population, is reducing the ability of School Districts to make excess space available to the child care industry.

IMPLICATIONS FOR CHILD CARE

The child care industry in San Mateo County is affected by the county's basic economic and demographic characteristics in several ways:

- Strong job growth, low unemployment, net positive migration to the county, steady birth rates, and increasing household size will fuel continued growth in demand for child care services in the county.
- The licensed child care industry's ability to meet this demand is threatened by the extraordinarily high land and development costs and very low vacancies in commercial, office and residential properties, which make it difficult to develop new facilities or to retain and expand existing ones.
- The stability and continued growth of the licensed child care industry is also threatened by the county's high cost of housing, which makes it difficult for low-wage workers, such as child care center employees and self-employed family child care providers, to live in San Mateo County. Child care workers are unlikely to commute long distances to work in the county's child care establishments because comparable employment

²⁰ <http://www.huduser.org/data/asthse/fmrdata/allstate/txt>

is readily available in neighboring counties with lower housing and other living costs.

- San Mateo County's slow labor force growth rate and its well-paying advanced technology industries result in higher average wages than the state or the Bay Area generally. But the cost of child care in San Mateo County is among the highest in the state. The county will need to expand its supply of affordable child care in order to grow an adequate supply of labor, especially for those earning less than the county's average hourly wage of \$19.50. This workforce is essential for the supply of all of the community's needed goods and services.
- Continued increases in housing costs, especially in the rental housing market, will continue to shrink the portion of the family income available to pay for child care and will increase the need for affordable child care supply.
- Implementation of time limits on income maintenance for low-income families under the federal Temporary Assistance for Needy Families program will also contribute to the need for more subsidized child care.
- The county's strong transportation sector, as well as the service sector, may contribute to a greater demand for child care during hours outside the traditional 8 a.m. to 6 p.m. child care schedule.

III. THE ECONOMIC IMPACT OF THE CHILD CARE INDUSTRY

This section assesses the economic impact of the child care industry in San Mateo County. After explaining some of the difficulties in applying traditional economic accounting tools to the industry, it measures the overall effects of child care in the local economy and compares the economic impact of child care with other local industries, taking into account:

- The size of the industry, as reflected in output or gross receipts.
- The size of the industry, as reflected in direct²¹ employment.
- The size of the industry and the extent of its local economic integration, as reflected in indirect²² employment.
- The degree of global integration of the industry.
- Occupational characteristics, such as average wages.

ACCOUNTING FOR THE CHILD CARE INDUSTRY

Economists typically analyze industries and their impacts based on a set of definitions and tools developed by the U.S. Department of Commerce (DOC). The DOC monitors economic activity through its Standard Industrial Classification (SIC) system, which assigns three- and four-digit codes to industries with similar products or services and then aggregates these industries into industry major groups (two-digit SIC) and sectors (one-digit SIC).

Economists also utilize survey results developed by the U.S. Department of Labor (DOL) and other sources. The DOL approach is similar to the DOC

²¹Direct employment refers to that supported by and included in the child care industry itself (e.g., child care workers, managers, etc.).

²²Indirect employment refers to that generated by the child care industry in supporting and related industries through child care industry purchases of goods and services. These might include construction employment due to refurbishing a child care facility, agricultural

approach, albeit with a focus on employment and wages, rather than gross receipts or output. The survey and identification methods that underly these traditional economic accounting tools undercount the licensed child care industry in several ways, discussed in Appendix A. However, in San Mateo County, the San Mateo Child Care Coordinating Council, Inc. (the “Council”), like other resource and referral agencies (R&Rs) in California, is funded by the state Department of Education to systematically track licensed child care inventory and market rates. Based on existing data bases, the R&R can estimate direct employment and gross receipts of the licensed child care industry in San Mateo.

The local estimate of gross receipts and direct employment by the Council seems more reliable than the estimates generated by DOC or DOL data for several reasons. First, the locally generated figure was estimated by a local agency charged with maintaining a current data base of San Mateo County’s licensed child care inventory in order to provide referrals to child care consumers. Second, unlike the DOC or DOL approach, it is based on a methodology that applies state-mandated minimum staff-to-child requirements to estimated child care enrollment figures and thus represents minimum employment levels. Third, this local estimate is not limited by government survey methods regarding establishment size or independent contractor status. Finally, this locally generated figure stated as a percentage of civilian employment is consistent with similar locally derived employment estimates from three other California counties.

MEASURING OUTPUT OR GROSS RECEIPTS

Output or gross receipts measure the size of an industry in terms of the overall value of the goods and services produced by the industry. The Council recently identified approximately 1,012 licensed child care establishments (757 licensed family child care homes and 255 licensed centers) and an additional 76

employment due to food purchases made by the child care program, and gasoline due to field trips taken by child care program participants.

license-exempt centers that care for about 20,700 children in San Mateo County. Based simply on enrollment data and market rates of care, the agency estimated gross receipts in the licensed²³ child care industry of \$109,324,499, including \$80,405,025 for child care centers and \$28,924,474 for family child care homes.²⁴

Another method of estimating industry output applies employment multipliers developed by the Bureau of Economic Analysis of the U.S. Department of Commerce (BEA). According to the BEA, each \$1 million in licensed child care final demand creates 25.6 jobs in San Mateo County, including 14.7 direct jobs and about 10.9 jobs in other industries (indirect employment). Applying this employment multiplier of 25.6 to Department of Commerce employment estimates results in a child care industry output of \$85.7 million.²⁵

The BEA estimate of direct employment is more than 60% lower than the local direct employment estimate (1,259 vs. 3,294). As discussed in Appendix A, this can be attributed to the Department of Commerce's accounting only for private licensed centers, excluding many other types of licensed child care establishments (for example, licensed family child care homes and publicly operated centers). Yet the Department of Commerce derived output is little more than 20% less than the locally derived estimate of gross receipts (\$85.7 million vs. \$109.3 million). This lack of proportionality may be attributable to several factors. First, the private licensed centers, the only ones counted in the BEA estimate, may produce greater output in proportion to direct employment than the excluded kinds of licensed establishments. Second, the local estimates of gross receipts are conservative because the only revenue that they count is parent fees

²³ And license-exempt centers, which are included in the economic analysis of the licensed industry because of their similar workforce requirements, operating structure, and financial requirements.

²⁴ This estimate is based on the number of children in care and the market rates of care. See Appendix H for an explanation of the methodology.

²⁵ This is expressed in 1994 dollars, which are worth about 7 percent less than 1997 dollars. The calculation is expressed as follows. $O = E/M$, where O is output (in millions), E is direct and indirect employment, and M is the employment multiplier. In this case, $O = 2,193$ divided by 25.6. (See Appendix D for a discussion of employment, employment multipliers, and output.)

(or transfer payments that function like parent fees). For example, the county's nonprofit centers and some licensed family child care homes capture more than \$3 million in revenue from the Child Care Food Program. Schools and other local agencies supply some facilities at no-cost or below-market rents. And foundations, corporations, and others make charitable contributions to the nonprofit part of the industry as a supplement to revenues derived from parent fees and public sector transfer payments.

If the Council's direct employment estimate and its output estimate are correct, they would yield a direct employment multiplier of 30.²⁶ When the BEA ratio of direct-to-indirect employment is applied to the local estimate of direct employment²⁷, the child care direct and indirect employment multiplier increases from 25.6 to 52.4.²⁸ When this multiplier is applied to the local direct employment estimates, child care output is approximately \$109 million.²⁹ This estimate is almost the same as the estimate of gross receipts derived by the Council based on the estimated number of children in licensed care and the market rates of care. Appendix E discusses other methods to estimate the industry's output.

This report relies on the locally derived direct employment and gross receipts estimates and concludes that the gross receipts of the licensed child care industry in San Mateo County are approximately \$109 million.

DIRECT EMPLOYMENT

²⁶ The local direct employment estimate is 3,294 child care jobs created in a \$109.3 million industry. Therefore, \$1 million creates approximately 30.2 jobs ($3,294 \div 109.3 = 30.2$).

²⁷ The BEA estimated ratio of direct to indirect employment is probably accurate, based on a comparison with the ratio of direct to indirect employment in similar service industries such as nursing and personal care.

²⁸ The ratio of direct to indirect employment is 14.7:10.9, which can be expressed as .74. If direct employment is 30, then indirect employment is $30 \times .74$ or 22.3, and total employment is 52.4 (rounded).

²⁹ $O = E/M$, therefore $O = 5,783/52.9 = 109.3$ million.

Direct employment in the San Mateo County licensed child care industry is assessed below, with the results summarized in Table 1, using three approaches:

- Data generated by the Council.
- Estimates based on SIC categories described in Appendix A.
- Estimates based on U.S. Department of Labor surveys.

TABLE 1

LICENSED CHILD CARE EMPLOYMENT IN SAN MATEO COUNTY, 1997

<i>Approach</i>	<i>Estimated direct employment</i>
Locally Generated by the Council	3,294
DOC	1,259
DOL	1,619
<i>Sources: Bureau of Economic Analysis, Department of Labor (ES-202 data), San Mateo County Child Care Coordinating Council.</i>	

As discussed in Appendix A, the latter two accounting methods seem to omit a significant share of the licensed child care industry. While presenting DOC and DOL estimates for comparative purposes, this report relies on the local estimate developed by the San Mateo County Child Care Coordinating Council. Of course, even the local estimate understates total child care economic activity in the county because it counts only formal child care establishments and excludes informal, individual caregivers. In particular, it excludes unlicensed care provided outside the child’s home, estimated at more than 27 percent of care provided outside the child’s home in San Mateo County³⁰, as well as paid care provided in the child’s home.

Local Estimates of Direct Employment

³⁰As discussed above, this is based on the number of children in care outside the home and the number in licensed facilities. California Child Care Resource and Referral Network, *The California Child Care Portfolio*, January 1997.

Direct employment in 1997 in the licensed San Mateo County child care industry and license-exempt centers totals 3,294, according to a recent estimate by the San Mateo County Child Care Coordinating Council. This figure is derived from the actual child care inventory and the number of children in different types of care, assuming compliance with minimum staffing requirements imposed by licensing laws for different age groups. In fact, the actual direct employment count is probably higher for two reasons:

1. It is an extremely difficult management task for child care centers to keep their doors legally open while employing only the exact minimum number of employees required by licensing, given changing scenarios in the number and age mix of children actually enrolled from time to time and also given the high rate of turnover in the child care workforce arising from low wages.
2. Because of facilities constraints and educational program elements, the provider may elect to employ more than the regulatory minimum number of employees in order to achieve specific quality goals that help make the business more competitive in the long-term.

The Council's estimate of direct employment in the licensed child care industry represents about eight-tenths of one percent of civilian employment in the county and does not include unlicensed care.³¹ This ratio of child care employment to civilian employment is comparable to those derived by similar means in three other California counties.

SIC Estimates of Direct Employment

³¹The approach assumed 533 employees in 533 family child care homes licensed for six children, 448 employees in 224 family child care homes licensed for 12 children, and 2,313 employees at child care centers. See Appendix H for a complete explanation of the methodology.

The second approach, based on the SIC method discussed in Appendix A, estimates 1,081 child care jobs in 1994.³² Because employment overall in San Mateo County rose 5.2% between 1994 and 1997, and the child care share of civilian employment increased 10.7%, this method would yield an estimated number of child care jobs today of 1,259.³³

Estimates of Direct Employment Based on U.S. Department of Labor Surveys

A 1995 U.S. Department of Labor survey indicated a total of 207 child care establishments with 1,493 employees in San Mateo County—a figure well below that developed locally by the Council. Because employment overall in San Mateo County rose between 1995 and 1997 by 5% and the child care share of civilian employment increased by 3.3%, this method yields an estimated number of jobs today of 1,619. As noted in Appendix A, the DOL method appears to understate child care employment because it excludes a variety of licensed establishments.

Direct Employment Compared with Other Industries

San Mateo County

Licensed child care (an industry or four-digit SIC category) is, of course, small compared with many sectors (one-digit SIC categories) and major industry groups (two-digit SIC categories) in San Mateo County. The San Mateo County service sector, for example, where the child care industry is grouped, accounts for more than 100,000 employees, including more than 14,000 in Business Services, a major industry group.³⁴ On the other hand, child care employment in the county

³²1994 data are reported initially since the latest available BEA statistics reflect 1994 industry employment and output.

³³In short, this higher figure represents employment that has more than recovered from the 1991-1994 recession.

³⁴ SAMCEDA, P. 38.

is comparable in size to at least one major industry cluster in the county, Biotech (a group of three three-digit SIC categories), with 4,200 employees.³⁵

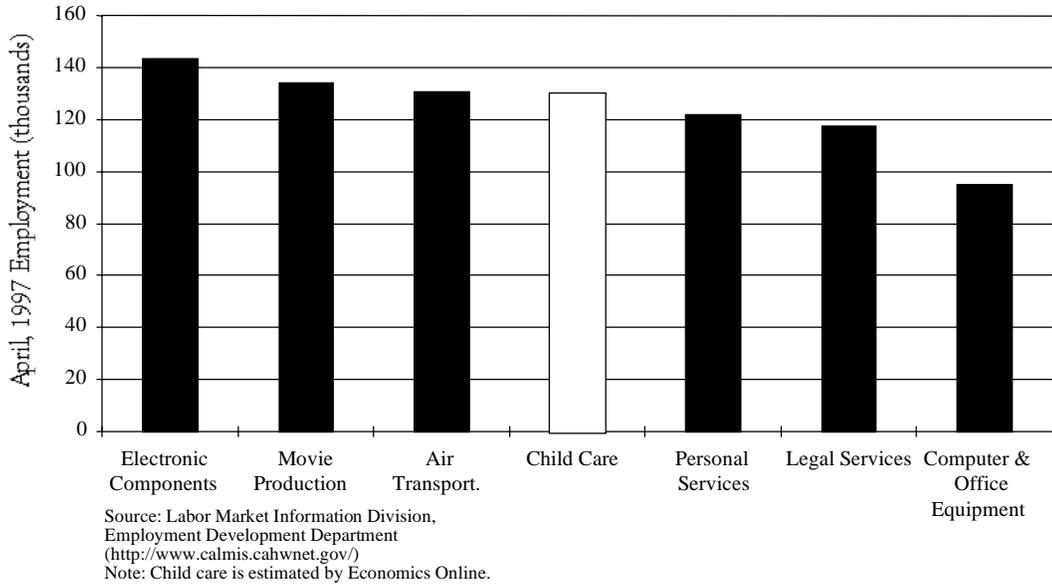
California

In California, direct employment in licensed child care³⁶ (a four-digit SIC category) is comparable in size to a number of other two-digit industry groupings, including motion pictures (SIC code 78) and air transportation (SIC code 45), as shown in Figure 1. The largest three-digit SIC industry, electronic components (SIC code 367) is only slightly larger than child care. Child care employment is larger in size than a number of other three-digit industries, such as computer and office equipment manufacturing (SIC code 357), personal services (SIC code 72, which includes dry cleaning and laundry services, beauty and barber shops, funeral services, and tax preparation services) and legal services (SIC code 81 or 810). However, in the state as in San Mateo County, licensed child care is small compared to the largest industry grouping in the service sector, business services (SIC code 73).

Figure 1

³⁵ SAMCEDA, p. 47.

APRIL 1997 CA. CHILD CARE AND OTHER INDUSTRY EMPLOYMENT



INDIRECT EMPLOYMENT

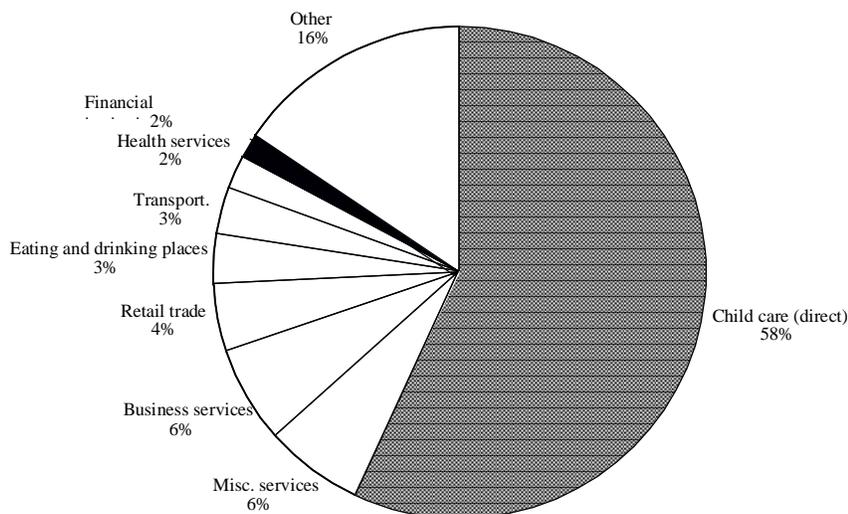
The licensed child care industry, like most industries, generates indirect employment in supporting and related industries through its purchases of goods and services. Affected industries include, for example, business services due to business accounting, tax compliance and audits; agriculture due to food purchases made by the child care program; and gasoline due to home-to-school transportation provided by some programs (*e.g.*, Head Start) or field trips taken by child care program participants. All jobs created by final demand in an industry—generally called employment multiplier effects—are expressed as the number of jobs created per \$1 million of final demand for an industry or commodity.

As discussed above with reference to the estimate of gross receipts, the Bureau of Economic Analysis of the U.S. Commerce Department has estimated

³⁶ The Bureau of Labor Statistics estimates child care employment nationally as a percentage of civilian employment. Economics Online estimated California child care

the number of direct and indirect jobs created by child care in San Mateo County (Figure 2). Applying the BEA ratio of direct and indirect jobs created (14.7:10.9) to the local estimates of direct employment (3,294), \$1 million of child care final demand creates approximately 52 jobs, including about 30 direct jobs in child care establishments and 22 indirect jobs. Of these indirect jobs, 8.5 (16 percent) are in a broad range of industry groups, including transportation, health services, and eating and drinking places, slightly more than three (six percent) are in miscellaneous services, and an additional six percent are in business services.

FIGURE 2
DIRECT AND INDIRECT EMPLOYMENT CREATED BY CHILD CARE
FINAL DEMAND IN SAN MATEO COUNTY



Source: Employment Development Department
(<http://www.calmis.calwnet.gov>)

In conclusion, based on locally generated direct job estimates of 3,294 and the BEA ratio of direct to indirect jobs in child care and similar service industries, 2,442 indirect jobs ($3,294 \times 10.9/14.7$) are created by San Mateo County's licensed child care industry, for a total of 5,736 direct and indirect jobs.

employment by applying this national percentage to civilian employment in California.

Indirect employment figures and program budgets can be used to compare the local economic impact of licensed versus unlicensed child care. (See Appendix C for a detailed breakdown of the expenditures and the distribution of jobs created by these categories.) As expected, licensed programs are much more integrated into the economy and support indirect employment in a variety of ways not supported by unlicensed and other informal child care activities, such as babysitting.

Licensed providers make local purchases of goods and services in order to provide formal, licensed care of good quality, including, for example, salaries to achieve minimum teacher-pupil ratios, purchases of goods and services necessary to ensure adequate marketing, tax and business compliance, financial monitoring or staff development, and purchases of goods and supplies that promote child development and health and safety. In contrast, unlicensed providers, such as babysitters and nannies, appear to create little, if any, indirect employment, based on their business expenditures and operational structure.

MULTIPLIER EFFECTS OF CHILD CARE CAPITAL INVESTMENTS

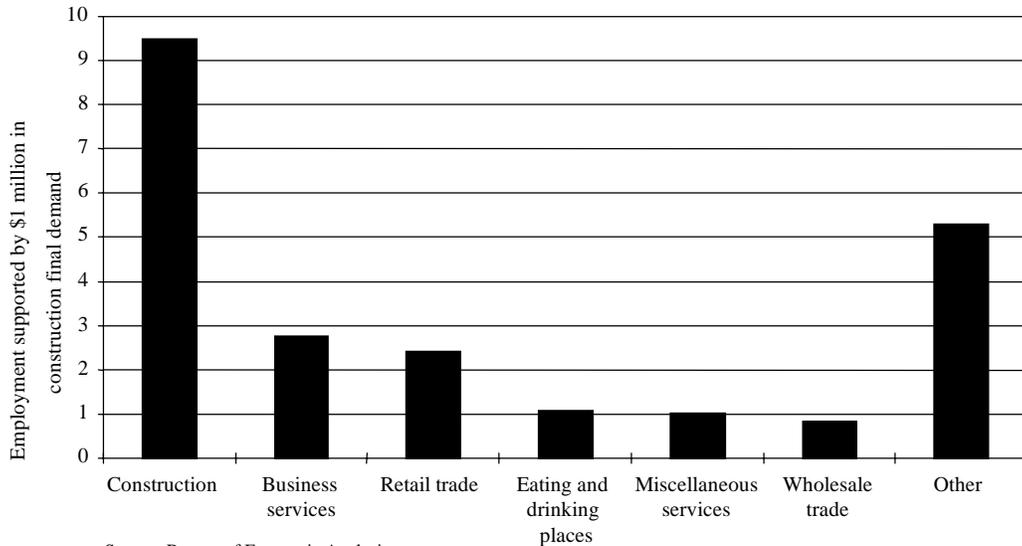
The analysis of the local economic impact of \$1 million of licensed child care final demand considers only the effects of licensed child care operations and excludes any economic effects from the construction of facilities. The construction of licensed child care facilities also provides substantial local economic impacts.³⁷ A one-time investment of \$1 million for the construction of child care facilities creates 23 jobs for one year, including more than nine in the construction industry itself (Figure 4).

³⁷ These benefits are not limited to child care, but accrue to any industry with construction expenditures.

+

FIGURE 3

DIRECT AND INDIRECT EMPLOYMENT FROM \$1 MILLION IN CHILD CARE FACILITIES CONSTRUCTION



Each \$1 million investment in a child care facility also creates more than two jobs in business services and retail trade, about one job in eating and drinking places and miscellaneous services, slightly less than one job in wholesale trade and five jobs in other industries. These figures may, in fact, understate the variety of economic effects of child care facilities construction since these specialized facilities must conform to a number of safety, health and other guidelines, and thus may involve categories of expenditures not found in typical commercial or office construction.

LOCAL VS. GLOBAL INTEGRATION OF CHILD CARE

As the San Mateo County economy becomes more integrated into the global marketplace, a smaller share of the total jobs created by local industries will remain in the local area. For example, an increase of \$1 million in final demand for electronic equipment manufacturing creates up to 19 jobs overall.

However, no more than two-thirds of these jobs are added in the San Mateo County region because at least one-third are outside the United States. An equivalent increase in child care final demand adds approximately 52 jobs, with virtually all jobs in the local economy. See Appendix J for a comparison of the global vs. local integration of child care as compared with other industries.

WAGES AND OTHER OCCUPATIONAL CHARACTERISTICS

Average wages in the child care industry, as well as other important employment-related characteristics such as tenure, benefits, and full-time versus part-time status, typically have ranked low in comparison with other industries. This is as true in San Mateo County as elsewhere. As discussed in Appendix F, the average wage of direct employment in San Mateo County licensed child care establishments is about \$14,850, which is eight percent higher than the industry's statewide average of \$13,768 annually³⁸, but is still in the bottom tenth percentile of occupational wages.

A broader quantitative measure of the wage contribution of any industry is the average wage of all jobs created by that industry—both direct and indirect—weighted by direct and indirect employment. According to recent wage data from the Employment Development Department and the Bureau of Economic Analysis, the average wage of all jobs created by the ten-county Bay Area child care industry in 1994 was about \$19,770, significantly higher than direct child care wages but still less near the bottom when compared with average wages across other industries.

However, this average wage is comparable to many other service-oriented industries that are growing rapidly. (See Figure F.2 in Appendix F). For example, child care created average wages are comparable to hotel, physical fitness center, and beauty shop wages.

³⁸ Bureau of Labor Statistics ES-202 Survey.

There are some positive aspects to the industry's occupational characteristics. As discussed in Appendix F, child care industry wages statewide have kept pace with inflation since 1987. This is superior to many other service industries, where wages have fallen statewide at about one percent annually, when adjusted for inflation. Moreover, as child care demand increases, child care wages may continue to increase.

IV. RECENT EXPANSION IN THE CHILD CARE INDUSTRY, CURRENT SUPPLY SHORTAGES, AND FUTURE NEEDS

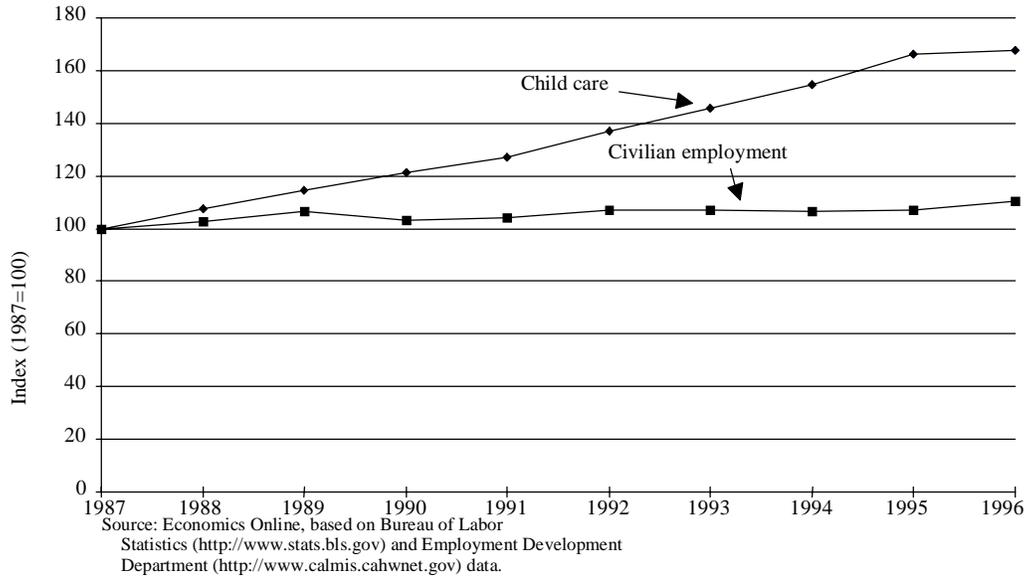
The San Mateo County economy recovered more quickly and more vigorously from the economic downturn of 1993 and 1994 than other Bay Area counties, generating significant expansion in the child care industry in the last ten years, as measured by changes in local child care employment. Despite the industry's expansion, significant shortages in certain kinds of licensed supply still exist, especially in infant care, subsidized care, affordable care for households earning more than the income limit for subsidized care but less than the local median household income, and care outside traditional hours between 8 a.m. and 6 p.m. And, as discussed below, a number of factors will lead to increasing child care needs in the county, especially in the types of care that are already in short supply.

CHILD CARE EXPANSION IN THE LAST DECADE

Fueled by--and an essential partner in--San Mateo County's exceptional economic growth, the county's licensed child care industry has accomplished significant expansion over the last decade. According to the Employment Development Department, civilian employment in San Mateo County grew by about ten percent from 1987 to 1996 (Figure 5). During the same period, child care employment grew an estimated 67 percent, or by about six percent annually.³⁹

³⁹Local figures are based on applying child care industry share of civilian employment at the national level to local civilian employment. Child care became a larger share of the total employment picture from 1987 to 1996.

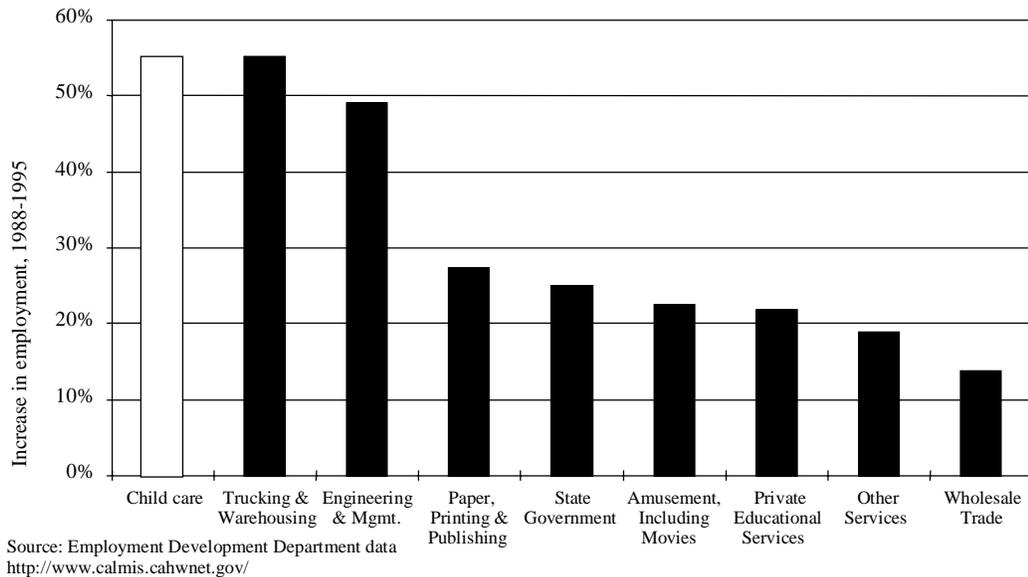
FIGURE 5
GROWTH IN CHILD CARE, CIVILIAN EMPLOYMENT IN
SAN MATEO COUNTY



Child care employment in San Mateo County expanded at a faster rate than any reported major industry (two-digit SIC) or sector (one-digit SIC) between 1988 and 1995⁴⁰ (Figure 6). Services, the fastest growing sector and the one in which child care is located, grew by 28 percent. Trucking and warehousing, a major industry, expanded almost as fast as child care.

⁴⁰ Detailed employment data for other industries is not available for 1987 or 1996.

FIGURE 6
CHILD CARE AND OTHER INDUSTRY GROWTH IN
SAN MATEO COUNTY, 1988-1995



Given the regulated nature of the industry, with specific facilities and trained workforce requirements that must be satisfied by the provider on a daily basis, and the dampening effect of informal caregivers on market rates, the extent of the expansion that has been accomplished is impressive. Serious shortages still exist, however, in infant care, subsidized care, and care that is affordable for the many lower wage San Mateo households who earn more than the state and federal income guidelines for subsidized care but less than the local area median household income. The severe and chronic nature of these shortages may indicate that the industry may have reached a limit in its ability to expand within the existing land use, public capital, and local development constraints of San Mateo County. Significant local intervention may be needed to help the industry overcome systemic barriers to expansion of the types of care that are in chronically short supply in San Mateo County.

CURRENT SHORTAGES OF SUPPLY IN THE COUNTY

The San Mateo County Child Care Coordinating Council, Inc. maintains a database of available child care and provides referrals to consumers seeking care. The agency also manages a centralized waiting list for all subsidized care in the county, eliminating the need for parents to place themselves on multiple waiting lists. As a result of these and other responsibilities, the agency is able to present a reliable picture of the specific kinds of licensed child care actually being sought by consumers⁴¹ that are in short supply.

Infant care is one of the greatest child care needs in the county, and the shortage affects all income groups. In 1994, it was estimated that there were 4,000 infants in need of care in the county, and fewer than 1,666 licensed spaces (669 full-time spaces and 125 part-time spaces in centers and approximately 500 spaces in family child care homes).⁴² That year, the Council recorded that over 64% of the agency's telephone requests for referrals were from parents seeking to return to the labor force before their child was one year old.

Subsidized care is also in short supply in the county, especially subsidized care for infants. In 1993, there were 6,499 children on waiting lists for subsidized care in San Mateo County, up from 5,640 in 1991. One thousand two hundred ninety four (1,294) of the children on waiting lists for subsidized care were infants, but there are only 170 full-time and 68 part-time subsidized spaces available for infants.⁴³

Because of the county's higher wages, waiting lists for subsidized care do not reflect the full scope of the shortage of affordable child care supply in San Mateo County. Income-eligibility for subsidized child care is capped either at 84% of the *state* median income (for certain state-subsidized child care

⁴¹ Not all consumers prefer licensed care. Therefore the shortage in supply cannot be measured simply by the difference between licensed slots and the number of young children or school-aged children of parents in the workforce.

⁴² Child Care Coordinating Council of San Mateo County, *Child Care Update—1993-1994: A Needs Assessment for San Mateo County*, p. 4.

⁴³ *Id.*, p. 5.

administered by the California Department of Education), at 75% of the *state* median income (for certain federally-subsidized child care administered by the California Department of Education), at 60% of the *state* median income (for State Pre-School), or at the federal poverty rate (for Head Start). But 1996 median household income in San Mateo County (\$61,300) is well above the state median household income (\$48,400),⁴⁴ and compared to the state, the county enjoys a relative wage advantage even in very low paid occupations, such as child care workers.⁴⁵

The wages earned by many service, retail, transportation, and clerical and administrative workers in San Mateo County are higher than the wages earned in these same occupations in much of the rest of the state. As a result, San Mateo County workers often find themselves above the income eligibility guidelines for subsidized child care and development programs. But the San Mateo wage advantage that makes these households ineligible for subsidized care falls far short of what is needed to make up for San Mateo's higher costs. The average cost of licensed child care in San Mateo County, for example, is less than the cost of care in only two other California counties.⁴⁶ Some San Mateo County examples help to illustrate how federal and state child care transfer payment program use of *state* median income to calculate income-eligibility for child care transfer payments hurts San Mateo County families with young children who are working and earning up to the local area median income.

EXAMPLE: A single parent earning a few pennies more than \$15/hour in an airline job at the San Francisco International Airport (\$31,400 annually or a little more than three times the minimum wage) would need to use almost one-third of his gross salary to pay the average cost of licensed care for a child under

⁴⁴ The state median income in 1996 was \$48,400, while the county median income in that year was \$61,300. Source: <http://www.huduser.org>.

⁴⁵ For example, as discussed in Appendix F, the average wage of direct employment in San Mateo County licensed child care establishments is about \$14,851, which is eight percent higher than the industry's statewide average of \$13,768 annually.

⁴⁶ California Child Care Resource and Referral Network, *The California Child Care Portfolio*, 1997.

two years of age in San Mateo County (\$8,944 annually). After paying the average rent for a two-bedroom/one bath apartment in San Mateo County (more than \$1,100/month at the close of 1996), his disposable before-tax income for all household expenses other than housing and child care (transportation, health care, utilities and telephone, etc.) would be about \$9,000. But his income would exceed the maximum amount permitted to place his child on the waiting list for subsidized care that had the highest allowable income (\$31,399 or 84% of state median income using certain state funds) and would be well above the highest allowable income for subsidy programs using federal funds (\$28,035 or 75% of state median income).

EXAMPLE: A similar single parent with one child earning \$15/hour (\$31,200 annually or a little more than 50% of San Mateo County's median income) would just be able to get on the waiting list for subsidized care using certain state funds, but, according to the Council which administers a centralized subsidy waiting list, this family would almost certainly not receive assistance because lower-income families in the county would constantly supercede the family on the waiting list.

EXAMPLE: A two-parent family with two full-time incomes totaling \$61,300 (the 1996 San Mateo County median income for families) and two young children—one infant and one three-year-old--would also have difficulty paying for child care although they earn almost twice as much as similar families in San Mateo County who are able to qualify for state and federal child care subsidies. Assuming the family had the necessary 20% down payment, it would be able to qualify with a lender to purchase a median priced home in the county for \$280,000⁴⁷, while paying an estimated \$1,800 for monthly mortgage principal and interest, taxes and insurance (or \$21,600 annually) on an outstanding mortgage of about \$224,000. As discussed above, the family would have to pay \$8,944 annually for full-time infant care and \$5,824 annually for full-time pre-school-

⁴⁷ SAMCEDA, p. 38, showing "Existing Home Price" for 1996.

aged care, or almost \$15,000 annually. Using 35% of household income for housing, this median-income family would not be considered to be significantly burdened by the cost of median-priced housing. But with almost 25% of the household income consumed by child care expenditures, even a median income family seems to be burdened by the high cost of child care in San Mateo County.

Thus, the County's shortage of affordable child care is a serious problem not just for the San Mateo households who--at about 50% of the local area median income and below—are eligible for federal or state child care subsidies but not able to receive them, but also for the many households who earn between 50% and 100% of the local area median income and are ineligible for federal or state child care subsidies.

PROJECTED GROWTH IN CHILD CARE NEEDS

Child care needs in San Mateo County are likely to continue to grow at a moderate pace as a result of several factors, including population growth, modest growth in labor force participation, the implementation of welfare to work requirements of Temporary Assistance for Needy Families program, and the rate of job growth in lower-paid service and transportation occupations.

Population Growth

The population in San Mateo County has been growing at a rate of 0.9% annually for the period from 1990 to 1996, and is expected to grow at a compounded rate of 1.1% annually for the period from 1996 to 2,000.⁴⁸ Although lower than the state's growth rate, the county's growth rate is now close to the national growth rate.⁴⁹

Between 1989 and 1994, the number of children born (and the crude birth rate) in San Mateo County remained relatively stable at 10,000 births a year.⁵⁰ In

⁴⁸ SAMCEDA, p. 16.

⁴⁹ SAMCEDA, p. 38.

⁵⁰ San Mateo County Health Department.

1989, 6.3% of the San Mateo population (and 8% of the child population) lived in poverty, well below the state average of 12.5%. However, from 1989 to 1994, the percentage of county births paid for by Medi-Cal increased from 17% to 29% of all births.⁵¹ This rate of increase was higher than the state's rate of increase and higher than the rate of increase of any other Bay Area county. This may indicate that an increasing percentage of San Mateo's young children are from families that are in need of subsidized child care.

In addition to births, net migration to San Mateo County will also contribute to population growth. International migration to San Mateo County has been holding steady at about 6,000 per year, while domestic migration is a negative, with 4,100 more San Mateo County residents leaving the county for other U.S. counties than entering it from other U.S. counties. A reduction in the rate of domestic migration from the county in 1996 caused the first net positive migration (both foreign and domestic) to the county in several years.⁵²

Labor Force Participation Rates

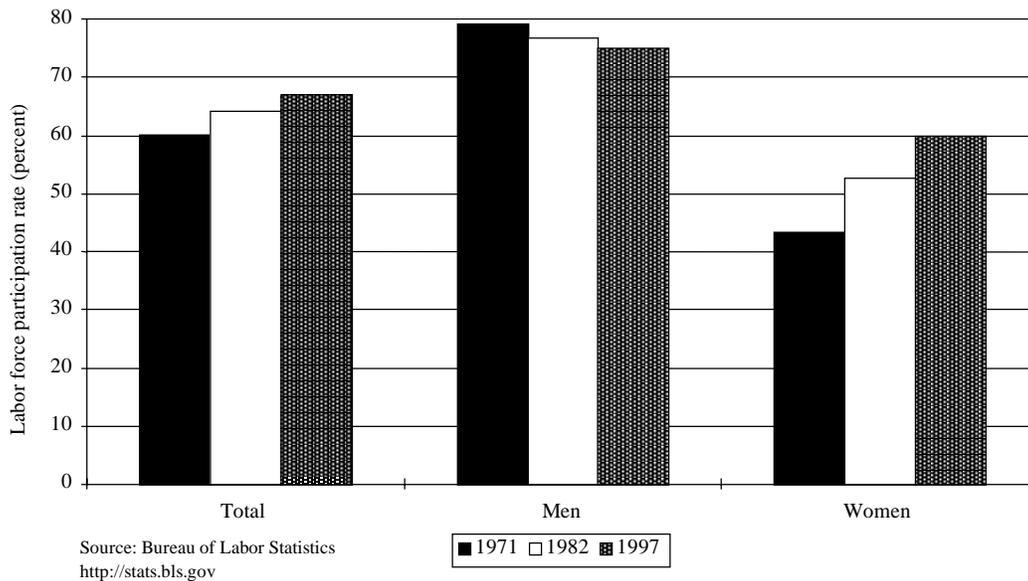
Today's U.S. labor force participation rate (the civilian labor force divided by the working age population) is about 67 percent, compared with a rate of about 60 percent in 1971 (Figure 7). This increase has resulted primarily from an increase among women. In 1971, the labor force participation rate for all U.S. women registered 43 percent, before rising to 60 percent in recent years.

Figure 7

LABOR FORCE PARTICIPATION RATES

⁵¹ SAMCEDA, p. 52 using data from California Department of Health Services.

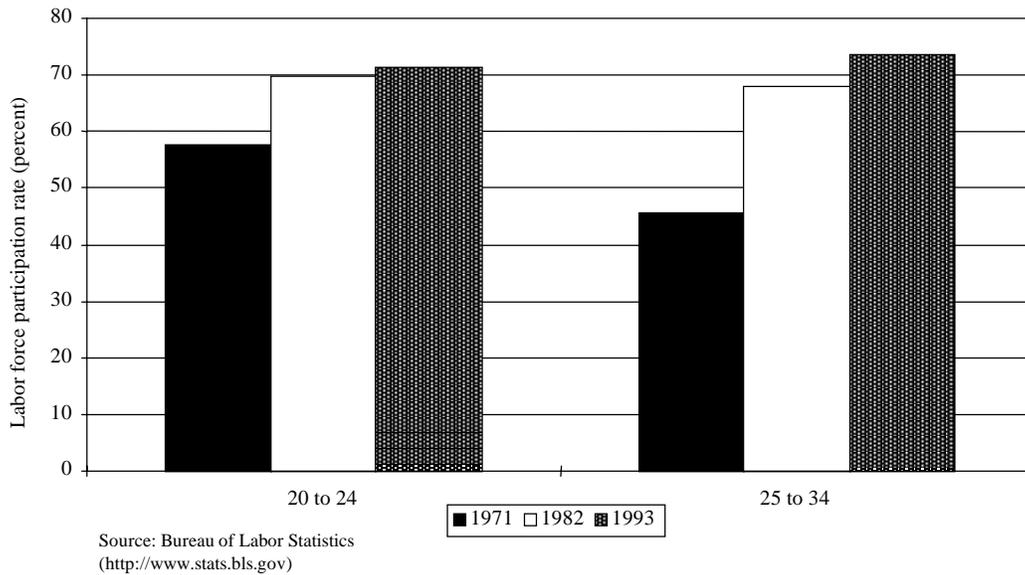
⁵² SAMCEDA, p. 16.



From 1971-1997, the labor force participation rate for young women jumped dramatically (Figure 8). For women 20-24, labor force participation rates climbed from 57 to 71 percent. The increase for women aged 25-34 was even starker. In 1971, less than one-half of these women worked. In 1993, the figure reached nearly three-fourths of women in this age group. In 1994, 62% of married mothers with a child under age six were in the workforce, as compared to 30% in 1970.⁵³

FIGURE 8
YOUNG WOMEN'S LABOR FORCE PARTICIPATION RATES

⁵³ Sandra Hofferth, "Child Care in the United States Today." In The Future of Children: Financing and Child Care, Vol. 6, No. 2, Center for the Future of Children, The David and Lucile Packard Foundation.



The Bureau of Labor Statistics projects that the national labor force participation rate for all women will increase an additional 2 points by the year 2005. A parallel increase locally would increase the number of San Mateo County children requiring child care in the year 2005 by about 3,000.⁵⁴ However, San Mateo County's total labor force growth rate (for both men and women) is growing at an average annual rate just below 0.1%, well below the 0.5% for the Bay Area and 1% for the U.S.⁵⁵ Thus, the rate of increase in women's participation in the labor force that would be expected based on national figures may not be fully realized in San Mateo County--perhaps because specific shortages in local child care supply are constraining labor force participation.

⁵⁴ Estimated by Economics Online based on current labor force participation rates among two-parent and single-parent families with children.

⁵⁵ SAMCEDA, p. 17.

Transition from Welfare to Work

The current effort to reform welfare (Temporary Assistance to Needy Children, or TANF) also will add to child care demand in San Mateo County over the next few years. Under TANF, 25 percent of virtually all welfare recipients⁵⁶ must transition to work in 1997 and an additional 25 percent must transition by 2002.

The TANF caseload in San Mateo County in 1996 was 16,300 adults and children.⁵⁷ Based on TANF criteria, about 1,600 adult recipients⁵⁸, in San Mateo County must transfer to work by 2002.⁵⁹ If these recipients successfully transfer to work (though they could still be receiving some welfare assistance), they will also increase the need for subsidized child care in San Mateo County.

Implications of Occupational and Industry Growth for Child Care Need

The San Mateo County economy, like the state economy, has changed since the mid-1980s. Among other structural changes, there have been employment shifts from high-wage, goods-producing industries (*e.g.*, manufacturing, construction, mining) to low-wage, service-producing industries (*e.g.*, trade, finance, services). San Mateo County's higher than average wages across all industries are attributable to the positive effects of high wage, high technology industries and tend to mask the significant growth of lower-wage employment in the county. In fact, the service sector has been, and will likely continue to be, the biggest job producer in the county and the one with the fastest growth rate. In contrast, the high-value-added industries, while increasing wages for their

⁵⁶Child-only recipients and the disabled are exempt. This category makes up about 20 percent of recipients in California. The Urban Institute, *Diversity Among State Welfare Programs: Implications for Reform*, Series A, No. A-1, January 1997, p. 4.

⁵⁷Department of Social Services, California Health and Welfare Agency.

⁵⁸One-half of the July 1996 caseload.

⁵⁹As of July, 1997, San Mateo County estimated that 5,200 families (adult recipients with children or children on their own) in the county receive welfare benefits.

workforce and widening the gap between the upper half and the lower half of the labor market, are not contributing appreciably to job creation gains.⁶⁰

Continued countywide growth in lower-wage industries and occupations will increase the demand for child care in general because in more cases, both parents in two parent households will need to work. This shift will also increase the demand for subsidized child care.

A closer examination of service industries and specific occupations suggests that the need for child care beyond the typical hours of 8 a.m. to 6 p.m. may also expand considerably. Many lower-wage service occupations (for example, Home Health Workers, who are projected to be among the fastest growing occupations in San Mateo County)⁶¹ are characterized by non-traditional hours, and workers may need child care in the evenings and on weekends. Nontraditional hours are also more prevalent in the transportation sector, a significant part of the San Mateo County economy because of the presence of San Francisco International Airport.

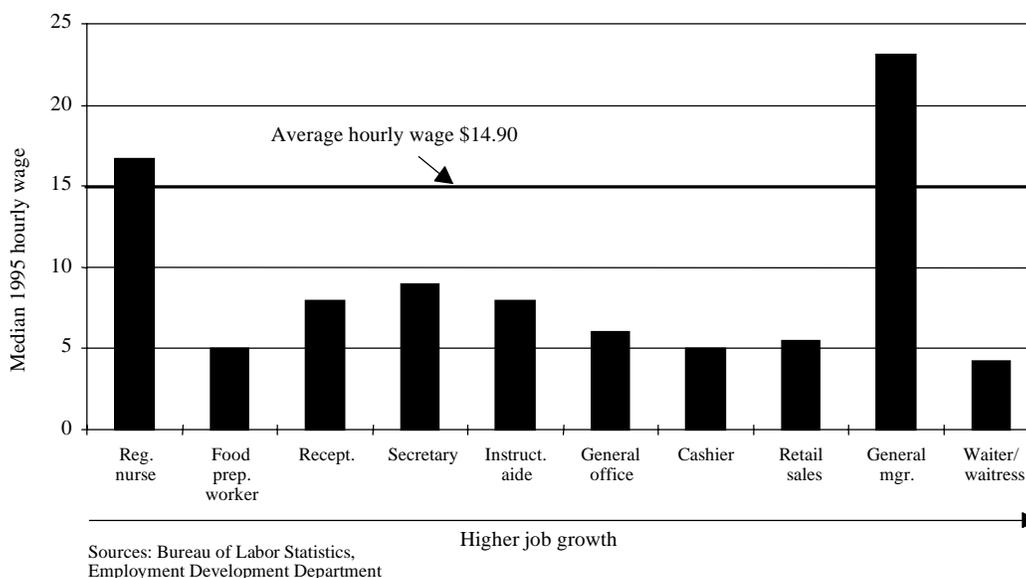
Statewide, a review of the fastest-growing jobs and their associated wages also suggests continuing increases in subsidized child care demand (Figure 9). The highest projected job growth statewide (nearly 110,000 jobs) from 1993 to 2005 is for waiters and waitresses. High job growth is projected in several other low-wage occupations. Retail sales employment, with median wages in 1995 of only \$5.50, is projected to rise by 105,000. Of the ten fastest-growing occupation categories, only two pay above median wages. Most wages in these fast-growing industries are near the poverty level, estimated at just over \$6 per hour in 1996.⁶² The increasing numbers of California workers in low-wage occupations will be hard-pressed to meet their child care needs without access to subsidized care.

FIGURE 9

⁶⁰ ABAG, p. 1.

⁶¹ Employment Development Department, <http://www.calmis.cahwnet.gov>.

WAGES OF CALIFORNIA'S FASTEST GROWING JOBS



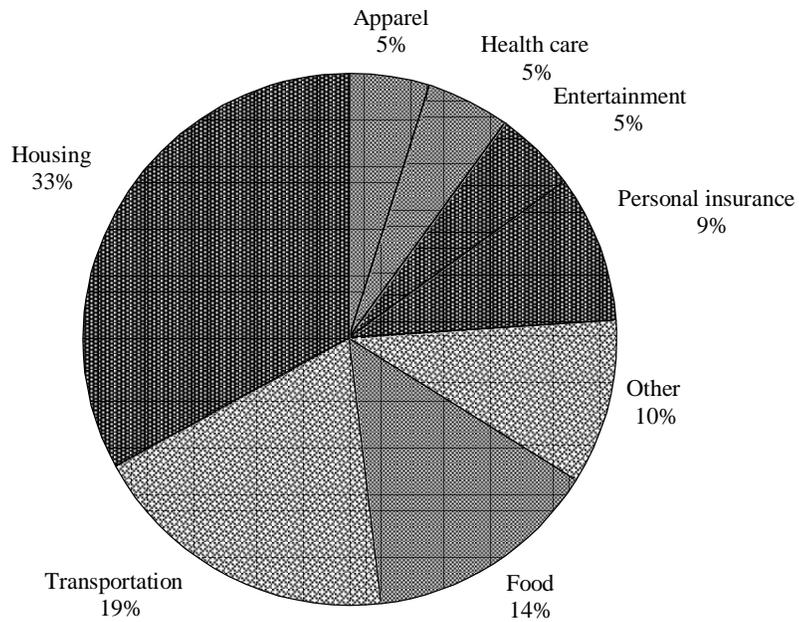
Child Care and the Family Budget

An analysis of the distribution of family expenditures supports the projection of an increased need for *affordable* child care, both for the part of the San Mateo County population that is eligible for federal and state child care transfer payments and for the part of the population that is above the eligible income but still not able to afford the county's current market rates of care. According to the Bureau of Labor Statistics, most families have little discretionary income that can be applied to child care expenses. The BLS has failed to even list child care as a discrete expenditure, and thus it is assumed to be included in "other" expenses in the BLS distribution of family expenditures. (See Figure 10).

⁶²California Budget Project, "Are There Jobs for Those Who Face Time Limits?," March

FIGURE 10

DISTRIBUTION OF FAMILY EXPENDITURES



Source: Bureau of Labor Statistics
(<http://stats.bls.gov>)

Although the BLS has failed to separately account for child care expenditures in the household budget, Bureau of the Census (BOC) reports show that child care expenditures are consuming an increasing share of family income.⁶³ The exact share varies depending on income level. BOC figures indicate that while all families with children under five spent an average of 8% of their income on child care, families with annual incomes under \$14,400 spent 25% of their income on child care.⁶⁴

17, 1997.

⁶³“Who’s Minding the Kids,” Survey of Income and Program Participation, Child Care Arrangements, Fall 1991, *Current Population Reports*, Series P70-36.

⁶⁴ Hofferth, p. 53.

A San Mateo County household of one parent earning the county's average hourly wage of about \$19.50 (about \$40,000 annually) with one child under the age of two would spend 22% of household income on licensed child care (\$8,944 annually) and 33% of household income on rent (\$1,100/month for a two-bedroom, one/bath apartment). Compared to national household expenditures, this average San Mateo worker (with only one child), although not in the low-income category, is considerably more burdened by the county's lack of affordable child care than by the lack of affordable housing.

Affordable housing production has been identified as an important part of a strategy to retain a competitively priced, skilled local labor force in San Mateo County without which high productivity industries, such as high technology, will relocate elsewhere.⁶⁵ However, San Mateo's housing affordability index is better than the Bay Area's generally. And, as illustrated in the above examples, housing affordability may not be as serious a burden for the average San Mateo worker with children under five as child care affordability.

⁶⁵ SAMCEDA, p. 27, and ABAG, p. 4.

V. CHILD CARE AND LOCAL ECONOMIC DEVELOPMENT

Section III examined output, employment impact, and occupational characteristics of the child care industry in San Mateo County. Section IV examined the recent period of expansion of the licensed child care industry in the county and identified existing shortages. As discussed in Section IV, existing child care shortages may be exacerbated by county population trends, welfare reform, workforce participation trends, and the occupational distribution of the county's vigorous job growth.

For a number of reasons, a growing child care need does not necessarily translate into effective demand that generates new supply. Because of low real estate vacancy rates, high land costs and development barriers, and local housing costs that are increasingly beyond the reach of the low-paid child care workforce, significant local intervention in the form of more favorable land use policies and public capital are needed to retain the existing supply of licensed care and to grow additional supply to meet some of the county's most critical child care shortages. Section V considers the case for public sector intervention in San Mateo County to strengthen the ability of the licensed child care industry to address current supply shortages and projected future needs.

THE IMPACT OF LICENSED CHILD CARE ON PRODUCTIVITY AND ECONOMIC COMPETITIVENESS

State and local governments use various tools, including investments in education, workforce development, research and technology funding, tax credits, land use concessions, capital expenditures, and various forms of business assistance⁶⁶ to strengthen particular industries that are deemed to make a vital

⁶⁶In its most recent estimate, the California Research Bureau estimated 86 different state economic development programs. Gus Koehler, Ph.D., "New Challenges to California State Government's Economic Development Engine," CRB, March 21, 1994, p. 39.

contribution to the local economy. However, many local economic development initiatives, while useful for narrow geographic areas, are of limited net societal benefit. For example, a local government may provide land or zoning concessions to induce the movement of a large retail center from one community to another, or the movement of a number of auto sales enterprises to a single regional “auto mall”. Such a move will reduce tax revenue and employment in the abandoned community and increase them in the new community, but the movement often provides no benefits to the regional economy or to society at large. Indeed, such a strategy may result in a deficit to the regional economy if the economic decline in the former community and the adverse impact on existing small businesses in the new community cost the region more in the aggregate than the gains realized in the new community.

Public investment in the local child care infrastructure (through, for example, land use policy changes and capital investment), on the other hand, provides benefits for the immediate community and for the society at large with little or no adverse impact on other community businesses or other jurisdictions. In that respect, an investment in the local child care infrastructure is like an investment in transportation. By reducing traffic congestion, local transportation policies and investments contribute to worker productivity gains across county industries, making all of them more competitive in the global marketplace, while making the county a more attractive place in general for continuing capital investment and new business formation. Likewise, local policies and investments to support licensed child care supply-building also contribute to worker productivity and overall output. Indeed, one national study showed that unstable child care arrangements account for an average of eight missed days from work annually, costing productivity losses in the billions of dollars nationally.⁶⁷

⁶⁷ Galinsky, E. & Hughes, D., *The Fortune Magazine Child Care Study* (August 1987), paper presented at the annual convention of the American Psychological Association, New York, New York.

Local policies and investments that promote affordable child care production can also be compared to local policies and investments to promote affordable housing production. Local government and the private sector will collaborate to increase affordable housing production through a combination of favorable land use policies and public/private capital investments when the cost of housing as a percentage of household income becomes so high that the county cannot retain or attract the skilled local labor force needed by high value-added industries, such as the high technology industries in San Mateo County, and those industries threaten to move elsewhere.

In San Mateo County, the lack of affordable child care supply is a greater burden on families with median household income than the lack of affordable housing supply. Critical child care shortages and the high cost of care in general almost certainly contribute to the county's slow labor force growth rate and may affect a greater diversity of workers and industries than the county's shortage of affordable housing.⁶⁸

Increasingly, however, because of voter-imposed constraints on the ability to raise revenue in other ways, local governments are pressured to evaluate their economic development investments not primarily on the basis of their long-term contribution to the county's economic competitiveness, but on the basis of more immediate gains in property and sales tax revenue. The child care industry plays only a modest role in directly generating local sales and property tax revenues. Perhaps because of this fact, as well as the low wage structure of the industry, other local revenue impacts of the child care industry have not been fully explored.

As discussed below, in addition to contributing to the overall productivity and economic competitiveness of San Mateo County, local policies and investments to support targeted, licensed child care supply-building will:

⁶⁸ Of course, housing affordability affects households both with and without children.

- Increase local labor force participation, which contributes to increased output, personal income, business formation, and local property and sales tax revenues.
- Contribute federal and state revenue to the local economy and make child care more affordable, by increasing the county's share of federal and state child care subsidies, both direct transfer payments and tax credits and deductions.
- Reduce local public sector expenditures in other areas by, for example, lowering drop-out and crime rates, lowering child abuse intervention and special education costs, and improving school readiness.

LABOR FORCE PARTICIPATION EFFECTS OF CHILD CARE SUPPLY

As discussed in Section III, the licensed child care industry has direct and indirect job creation impacts that are not realized by the informal, unregulated caregivers. However, the job creation impact of the licensed child care industry, though not insignificant, carries less currency in the local development discussions of San Mateo County, where available jobs already outnumber the available labor force, than it might in other California counties with less spectacular job growth.

On the other hand, because of the county's slow rate of labor supply growth in relation to the projected job growth, the effect of licensed child care supply on labor force participation may be of much greater importance in San Mateo than in counties with higher unemployment rates. A slow labor force growth rate has been identified as one of the greatest barriers to San Mateo County's continued economic growth.

Section IV discussed the current shortages of care, especially care that is affordable by households at the local median income and below, and projected future growth in child care needs in San Mateo County due to population growth, labor force growth, occupational distribution of job growth, and welfare reform. Because of local real estate and workforce barriers to child care business

formation and retention in San Mateo County, increased child care need does not necessarily equate to effective demand that results in new supply. The flip side of demand—licensed child care supply—is one of the factors⁶⁹ that affect local labor force participation rates. As discussed below, licensed child care supply seems likely to have a significant labor force participation impact on workers in low-wage jobs, as well as those in the county’s better paying high-tech jobs.

A parent in a two-parent household with the educational qualifications to fill better-paying information industry and business management jobs may be deterred from working or may significantly delay labor force participation because the parent is not satisfied with the quality, stability or affordability of available child care options. The county’s shortage of licensed supply for infants and toddlers, which is affecting all income groups, may especially have this impact. As a result, local jobs that, but for inadequate child care supply, would otherwise have been filled by a San Mateo County resident are instead filled by commuters from other counties; their wages generate sales and property tax revenue primarily outside the county; and their commuting increases the economic burden that traffic congestion imposes on the county.

Nor is a commuter as likely to move to San Mateo County if he or she is a child care consumer. Although San Mateo County’s housing costs are high, its housing affordability index (percentage of average housing costs to average household income) is actually better than the Bay Area’s overall.⁷⁰ In contrast, child care is more affordable elsewhere in the Bay Area, and the increased wages associated with a job in San Mateo County will have more impact if the worker resides and purchases child care in another Bay Area county.

Less educated county residents seeking employment in the lower paid service and retail industries face even greater problems—and their labor force participation may be a matter of necessity, rather than choice. These workers may be unable to apply for certain jobs or they may restrict their hours of work

⁶⁹Workforce training is another obvious factor.

because the location, hours, ages served, and rates of available child care supply are incompatible with the location, hours and wage structure of available jobs or with the ages of their children. Labor force participation among this portion of the county's population may be particularly affected by the county's shortage of subsidized supply and its shortage of supply for hours outside the traditional 8 a.m. to 6 p.m. work schedule of many licensed child care establishments.

The impact of local child care supply on the labor force participation of less-skilled workers, in turn, directly affects the growth of the many service and retail industries that employ them. The service sector is the San Mateo County's largest job producer, and the fastest growing sector. Unlike jobs directed at the top half of the county's labor market, many service sector jobs may not pay enough to induce a resident of another county to commute three hours each day. Business growth in the service and retail sectors—for example, new hotels that will generate property and transient occupancy taxes or regional retail centers that will generate sales and property taxes—may be constrained by the inadequacies of local labor supply. And constraints on this kind of business formation can eventually affect the rate of growth of the high wage, advanced technology industries that depend on the goods and services of those lower wage industries.

An increase in licensed child care slots in San Mateo County, if carefully tailored to address chronic, consumer-identified shortages in specific communities, could play a role in increasing the local labor force in the county.⁷¹ Employment would likely rise by some fraction of the increase in licensed child care slots. For example, an increase in child care supply by two percent or approximately 500 slots could increase local employment by three-fourths of the increase, based on estimates by the California Child Care Resource and Referral

⁷⁰ SAMCEDA, p. 50.

⁷¹An increased supply of subsidized child care is essential because of both the high costs of child care relative to earnings, the general high costs of living in San Mateo County, and the low earning power of most former welfare recipients. For example, the average annual cost of child care ranges from \$5,824 for a child 2-5 years to \$8,944 for a child under 2 years in San

Network that three-fourths of the demand for child care is work related.⁷² In the alternative, employment could increase by perhaps one-fifth of the change in child care slots.⁷³ Assuming the higher estimate, this increase in child care availability, if tailored to meet existing market shortages, could increase local labor force participation by approximately 350⁷⁴ in San Mateo County and add between eight and nine million dollars in personal income to the region.⁷⁵

Of course, expanded child care supply will only have a favorable affect on local labor force participation and employment if it is carefully matched to the unmet demand in the child care market down to the local neighborhood level, which is the market area for many families. If the location, the hours of care, the ages served, and the affordability of new child care supply were carefully targeted to meet the needs of San Mateo County's diverse communities, such a supply-building effort could increase labor force participation and ameliorate the county's growing labor problem. The resulting increase in local employment would, in turn, increase output, personal income, living standards, new business formation, and local property and sales tax revenues.

CAPTURE OF FEDERAL AND STATE SUBSIDIES

As shown in Table 2, San Mateo County child care providers now add approximately \$22 million to the local economy through the capture of federal

Mateo County. California Child Care Resource and Referral Network, *The California Child Care Portfolio*, January 1997.

⁷²California Child Care Resource and Referral Network, *The California Child Care Portfolio*, January 1997, cited in summary.

⁷³A study of the Illinois AFDC population estimated that child care problems caused 20 percent of AFDC mothers to abandon training or work efforts. *The Future of Children (Child Care in the United States Today)*, Vol. 6, No. 2 (Summer/Fall 1996, pp. 57-58).

⁷⁴Reflects February 1997 data.

and state transfer payments for child care and child development. These subsidies make it possible for lower-income San Mateo families to afford child care, and are especially critical in light of two factors: (1) the high percentage of household income among lower-wage families that is consumed by the county’s high cost of housing and (2) the county’s rapid rate of growth of the Medi-Cal eligible population.

TABLE 2
CHILD CARE AND DEVELOPMENT SUBSIDIES IN
SAN MATEO COUNTY

<i>Federal or State Funding Source</i>	<i>San Mateo County</i>
Child Care Food Program 1994-1995 From CDE Child Nutrition & Food Distribution Division ⁷⁶	3,249,094
Head Start (not including Tribal, Early, Migrant) From Region IX, data from FY 1996 ⁷⁷	3,222,020
California Department of Education Contracts for 1996-97 ⁷⁸ *Includes categories below	13,331,883
California Department of Social Services From Title IV-A Monthly Statistical Report, Feb. 1994 ⁷⁹ Includes license-exempt and licensed provider care	2,207,772
TOTAL	\$22,010,769

Because of the structure of the San Mateo economy and the fact that lower-wage occupations will experience much of the projected growth, the availability of federal and state child care subsidies will play an increasingly important role in

⁷⁵Based on an average personal income of \$25,000. This figure notably excludes the multiplier effects of an increase in child care employment, which is described in Section IV.

⁷⁶“California Child Care Food Program: Facts and Figures by County,” California Department of Education, Child Nutrition and Food Distribution Division, May 1996.

⁷⁷ From phone conversation with Region IX staff, May, 1997.

⁷⁸ California Department of Education, Education Finance Division printout, June 9, 1997. CDE contracts include (contracted amounts may not be received in full): State Preschool, Instructional Materials, Block Grant Center Based, General Center, AFDC Tracking, Block Grant SAPID, SAPID, Latchkey, AP, Respite Care, Campus Child Care, Block Grant AP, Block Grant CPS, R&R, “At Risk” AP, “At Risk” Center Based, Local Planning Council Grant, Block Grant Quality Improvement, Block Grant R&R, 15 Month Block Grant AP, Block Grant Migrant Child Care, Migrant Child Care, Repair and Maintenance.

⁷⁹ Lapkoff & Gobalet Demographic Research, “California’s Child Care Gap,” *Financing Early Childhood Facilities*, National Economic Development and Law Center, January 1996..

supporting local economic development. Targeted local investments in child care, particularly licensed establishments, may help San Mateo communities to garner a larger share of state and federal child care subsidies and maximize the local economic effects of those federal and state investments.

In contrast with many other categories of social welfare expenditures, federal and state child care transfer payment programs have been expanding steadily for the past decade and seem likely to continue to expand as social welfare policies shift from providing income maintenance to supporting parental employment. In the school year 1996-1997, the Child Development Division of the State Department of Education was allocated over three-quarters of a billion dollars in state and federal funds for its center-based and voucher child care subsidy programs. The majority of this funding (nearly 67%) was for center-based programs (including pre-school, general child care centers, campus child care, school-aged parent-infant development (teen parent) centers, migrant child care, and latchkey or school-aged child care). Approximately 30% was in the form of vouchers, or Alternative Payments, that can be used at a provider of the parent's choice, including license-exempt providers.⁸⁰

However, total state and federal expenditures on child care and development are still well below the amount needed to serve all of California's low-income households. And not all California communities have benefited equally from the expansion of public investment. One 1994 study, using data from the California Department of Education and the U.S. Department of Health and Human Services, showed that the percentage of income-eligible two-to-five-year-old children in California counties that are served by subsidized care (including Head Start, State Preschool, Department of Education child care contracts, and the Alternative Payment child care voucher program) varies from a low of 28% in Ventura County to a high of 81% in the City and County of San

⁸⁰ Child Development Division, California Department of Education, report August 20, 1997. The thirty percent voucher figure is based on the assumption that 75% of the federal funds for "mandatory child care services" were allocated to vouchers and 25% to center-based care.

Francisco.⁸¹ In 1994, San Mateo County captured subsidies sufficient to serve 54% of the working poor population, while Santa Cruz County immediately to the south captured subsidies to serve 41% and Santa Clara County immediately to the east captured subsidies to serve 52%.

Differences in distribution of federal and state child care transfer payments among the counties may be due to the program development and funding mechanisms of the various federal and state programs. For the most part, child care subsidies are not distributed as an individual entitlement (a transfer payment to which every income-eligible family is entitled) or as a county or city block grant (an annual allocation of state or federal dollars to counties and cities based on comparative demographics).

Instead, expansion funds for Head Start, State Pre-School, and General Child Care and other child care subsidy contracts for licensed centers are made available on a competitive basis to nonprofit and public agency providers across the state who, within a narrow application window of, for example, three months, are able to demonstrate the availability of a licensable facility, start-up funds, qualified staff, and other necessary resources to successfully absorb the expansion in a very short time frame. These are provider-based subsidies, rather than consumer-based vouchers. In the case of the federal Head Start program, expansion has been restricted primarily to existing grantees, while the California Department of Education has sometimes made expansion funds available to new contractors. In either case, a county with comparatively greater need for subsidies can only compete successfully if its local child care and child development industry is able to overcome local real estate, financial, regulatory, labor force, and organizational barriers to program expansion within narrow time constraints.

In San Mateo County, land and development costs, as well as local labor costs, are much higher than in the state overall. But the annual subsidy amounts per child (“contract reimbursement rates”) authorized by the State Department of

⁸¹ Lapkoff & Gobalet.

Education reflect a formula largely tied to state costs. The inadequacy of this reimbursement rate in high-cost counties is compounded by the fact that for a number of years during the state's economic recessions, Cost-of-Living Adjustments (COLAs) were not provided. As a result of these factors, the state reimbursement rate for subsidized child care centers is barely adequate to cover personnel and administrative costs of operating a licensed center in San Mateo County. Without a revenue stream adequate to cover capital recovery costs, the typical San Mateo County provider can only compete successfully for new state subsidy contracts if it can secure a donated facility or one available at rates well below fair market rents. In San Mateo County, it will become increasingly difficult for the licensed child care industry to capture state and federal center-based child care contracts without significant local intervention to address facilities needs.

Once the provider-based subsidy contract is won from the regional office of the U.S. Department of Health and Human Services (for Head Start) or from the California Department of Education (for subsidized child care and State Pre-School), the contract is renewed annually unless there is serious financial or other malfeasance. And, of course, the provider may have to terminate the contract if it can no longer secure licensable facilities or a qualified workforce within the limits of the public reimbursement rate, which, depending on the county, may be below the full cost of providing the care.⁸² Thus, given the funding mechanism used by the larger federal and state child care transfer payment programs, local organizational efficiency, as affected by local real estate and labor force conditions, would seem to play a direct role in winning and then maintaining federal and state provider-based contracts for subsidized child care that make care affordable for low-income working parents.

⁸² During the period of the state's economic decline in the first half of the 1990s, state child care reimbursement rates did not receive annual COLA increases. But in San Mateo County, where the economy downturn was shortlived, the cost of delivering child care services was continuing to climb.

Of course, other factors may affect county enrollment rates in provider-based subsidy programs in addition to local organizational efficiency and local development conditions, for example, average household income or political influence with respect to state and federal administrative decisions on the distribution of subsidies. The argument that local organizational efficiency and development conditions play an important role is supported by a statistically significant correlation between the number of licensed slots per child up to age five and the enrollment rate of income-eligible preschool children of working parents in subsidized care. Regression analysis shows that the number (or availability) of child care slots explains about seven percent of the variation in county enrollment rates.⁸³ In fact, the correlation indicates that an increase of five percent in the availability of slots per young child would achieve a one percent increase in enrollment rates in subsidized care.

This correlation supports the premise that the development of local resources, infrastructure and policies to promote licensed child care supply-building can increase a county's capture of provider-based federal and state child care subsidies. The maximum capture of all available state and federal child care transfer payments is especially important if low-wage workers with young children are going to continue to afford to live in San Mateo County in the face of rising local housing costs and declining federal and state housing subsidy programs.

Competition with providers in other jurisdictions with less significant development barriers is not a factor in provider enrollment in the U.S. Department of Agriculture Child Care Food Program, which is a subsidy payment for food

⁸³A regression of the natural log of slots on the natural log of enrollment rates returns an R^2 of .065. R^2 measures the regression's overall effectiveness in predicting Y from X. The value of the X coefficient is .21. The regression includes a total of only 41 observations from California counties because enrollment data from some rural counties has been aggregated. This analysis shows that the number (or availability) of licensed child care slots explains about 7 percent of the variation in enrollment rates in subsidized care. Most of the data in this section (i.e., population and enrollment rates) are from the early 1990s. The number of licensed child care slots is from the 1997 *California Child Care Portfolio*, which represents 1996 data.

costs that is available to certain categories of licensed providers, including nonprofit centers and family child care homes serving low-income children. Unlicensed providers cannot capture the funds, however, and licensed providers must be recruited locally to enroll in the program, which requires compliance with reporting and other administrative requirements in order to obtain the modest food subsidy. This funding mechanism, too, requires a certain degree of local organizational efficiency in order to maximize the federal transfer payments captured by the local child care industry.

The efficiency of the local infrastructure in supporting licensed child care supply is less a factor in the distribution of expansion funds through the state's Alternative Payment program, a child care subsidy program that is consumer-based and can be applied to the purchase of license-exempt care from informal caregivers, such as relatives and babysitters. The state can readily allocate these funds to Alternative Payment contractors in the counties based on comparative demographics and existing subsidy enrollment rates of income-eligible children.

However, Alternative Payment vouchers tend to be ineffective, without other local intervention, to help *create* the kinds of stable, licensed establishments that can be created by provider-based subsidies, just as Section 8 housing certificates do not directly create new affordable housing supply. As a result, consumers with Alternative Payment vouchers may be forced to use informal care arrangements, even when their preferred choice is licensed, stable care, especially if they live in lower-income neighborhoods.

Thus, the Alternative Payment or voucher funding mechanism, in contrast with provider-based contracts, has the merit that it is less dependent on local organizational efficiency and local development conditions in order for San Mateo County to capture a proportionate share of the total funds available in the state. However, the Alternative Payment or voucher form of funding mechanism, without local intervention to support licensed establishments in lower-income communities, may not help directly grow the supply of licensed child care

establishments, already threatened in San Mateo County by high real estate costs and the difficulty of retaining child care workers.

In conclusion, whether future federal and state child care transfer payment expansion occurs primarily through consumer-based subsidies or through provider-based subsidies, significant local intervention is needed to support their capture by licensed child care establishments in San Mateo County.

FEDERAL AND STATE TAX CREDITS AND DEDUCTIONS FOR CHILD CARE

The federal and state governments also subsidize child care indirectly through tax expenditures, in particular a child care tax credit for consumers of child care who make payments to a provider who reports the income, as well as certain employer deductions. Unfortunately, California's Franchise Tax Board no longer maintains records on the number of child care deductions and credits claimed or on the revenue loss from these claims. The FTB also does not provide statistics on the state's Employer Tax Credit, which allows an employer to claim a corporate tax credit of 50 percent of the cost of the employee child care benefit.

The IRS, on the other hand, maintains statistics on both total credits and the revenue loss to the U.S. government resulting from tax filers claiming child care tax credits. The U.S. Child and Dependent Care Tax Credit⁸⁴ allows filers to claim as a credit against income tax owed up to 30 percent of expenditures up to \$2400 for 1 child, and up to \$4800 for 2 children. The maximum credit per child is \$720 annually.

In San Mateo County, the estimated amount of revenue returned annually to the local economy as a result of the federal child care tax credit is \$6.5 million, if

⁸⁴A second federal tax provision is the Dependent Care Assistance Plan (DCAP). DCAP permits an employee who files a joint return to shield from income and Social Security taxes up to \$5,000 per year in pretax earnings for child care. The tax revenue loss in 1994 was \$675 million. However, less than one percent of employers utilize this credit. Stoney and Greenberg, "The Financing of Child Care: Current and Emerging Trends," in *The Future of Children: Financing Child Care*, Center for the Future of Children, The David and Lucile Packard Foundation, 1996, p. 87.

one assumes a proportional share of credits (and implicitly expenditures) in San Mateo County. The precise benefit of the credits to San Mateo County depends on whether filers save or consume their tax credit moneys, and on what products or services filers consume.

The credit is available only if the provider's social security number is included, so that the credit can be cross-checked with reported income. When this requirement was imposed in 1988, the number of federal returns claiming the credit dropped by one-third, from nine million to six million. Thus, a consumer's use of the credit may correlate highly with the use of licensed family child care providers and centers, who are more likely to comply with business and tax formalities than their unlicensed counterparts. Strengthening of the county's licensed child care industry should have the effect of increasing the utilization of the child care tax credit, with a positive contribution to the local economy.

AVOIDED PUBLIC SECTOR COSTS IN THE CONTEXT OF DEVOLUTION

Good quality child development programs also can reduce long-term public sector costs across a number of categories. According to the Perry Preschool Study, which followed 123 Michigan children over nearly 30 years, each dollar spent on high quality child development programs saves \$7 in future spending on criminal justice, education, welfare, and other expenditures.⁸⁵ The long-term benefits of quality pre-school care include higher educational achievement, better health status, decreased likelihood of child abuse, lower rates of childbirth, and a higher high school completion rate.

Specific budget data for San Mateo County expenditures that match the expenditures tracked by the Perry Preschool Study are not available, but local investments in good quality child care could reduce San Mateo County's expenditures in similar areas by a substantial amount. According to a study that

compared the quality of regulated family child care providers with informal, relative caregivers,⁸⁶ these public sector savings can also result from higher quality care provided in licensed family child care homes. Providers who are “intentional” about the business of child care, rather than motivated primarily by child care needs of a family member, are more likely to offer higher quality care, which is associated with improved child outcomes. Such public sector savings will not be realized in San Mateo County if shortages in the county’s licensed child care supply forces parents to turn in increasing numbers to informal caregivers.

Devolution of federal and state funds for social and educational programs to counties and cities in the form of “capped” block grants means that San Mateo County will have a more direct economic incentive to lower its social welfare, criminal justice, and remedial education costs. In the past, when there was growth in the population with social welfare needs, individual entitlements from the federal and state government insured that minimal needs would be met, whatever the condition of the county’s balance sheet. Now, if social welfare needs rise above capped block grants, the county will bear the brunt of it. On the other hand, if the county is successful in lowering social welfare expenditures, it will share in the savings under a block grant. In the context of revised relationships between low-income people and government, the savings generated by local investments in licensed child care are more likely in a post-devolution era to show up on the county’s financial statements, rather than the state or federal government’s.

Within the shorter term, the successful transition from welfare of one-half of San Mateo County’s adult welfare recipients by the year 2002 (the target of TANF legislation) could reduce current expenditures on income maintenance of

⁸⁵L. J. Schweinhart and D.P. Weikart, *Significant Benefits: The High/Scope Perry Preschool Study Through Age 27*, High/Scope Press, 1993.

⁸⁶Galinsky, *et al.*, *The Study of Children in Family Child Care and Relative Care: Highlights of Findings*, Families and Work Institute (1994).

poor families by nearly \$11 million annually in San Mateo County alone.⁸⁷ Local investments to increase the supply of subsidized care in the county would contribute to achieving these savings. Because of the devolution of greater program and fiscal responsibility for social welfare to county governments, a share of such savings on income maintenance would be earned directly by the county and would be available for local infrastructure development. On the other hand, if the county fails to make adequate investments in licensed child care supply that can help lower welfare participation rates within the time limits imposed by federal and state laws, county expenditures on emergency services for families and other long-term social welfare costs may rise.

⁸⁷Based on total AFDC payment to adults of \$565 monthly. 1,600 adult recipients at \$565 per month for 12 months costs \$10.8 million. This figure excludes any reduction in AFDC payments to children.