

# **THE ECONOMIC IMPACT OF THE CHILD CARE INDUSTRY IN MERCED COUNTY**

*EXECUTIVE SUMMARY*

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A study sponsored by

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

And prepared by

NATIONAL ECONOMIC DEVELOPMENT AND LAW CENTER



## BACKGROUND

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

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## Executive Summary

### The Economic Impact of the Child Care Industry in Merced County

Merced County's child care industry is critical to the county's overall economic vitality and quality of life. Child care is an income-generating, job-creating, service industry in Merced County that enables parents to participate in the county's workforce. Stable, high-quality child care also increases worker productivity, loyalty, and motivation, and reduces turnover and absenteeism. Demographic and economic trends show that over the next ten years, Merced County will continue to see job and population growth. The current supply of child care will be unable to meet this growing need unless non-traditional stakeholders actively invest in this critical economic infrastructure.

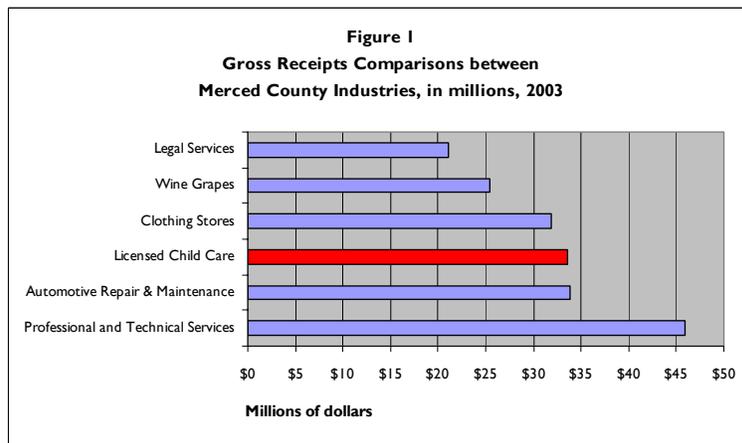
### Defining Licensed Child Care in Merced County

Early care and education programs (ages five and under), as well as programs for school-age youth (ages 6 through 13), make up the child care industry. Formal or licensed child care includes care that is provided in the following facilities: family child care homes, child care centers, California Child Development Centers (state pre-schools and general child development centers), Pre-schools for Children with Special Needs, Head Start programs, and other governmental child care programs. These licensed facilities care for an estimated 5,700 children under the age of 14 Merced County.

### Gross Receipts of the Child Care Industry

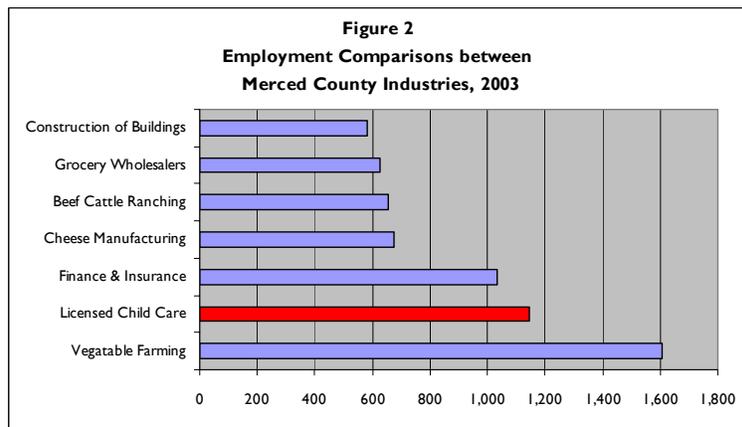
The licensed child care industry generates an estimated \$33.5 million dollars per year in gross receipts. When compared to other industries in the county, the child care industry is larger than

clothing stores and legal services, and similar in size to the automotive repair and maintenance industry (see Figure 1).



### Employment

More than 1,140 full-time equivalent local jobs are directly supported by the licensed child care industry. There are more child care professionals in Merced County than there are professionals working in finance and insurance,



cheese manufacturing, beef and cattle ranching, and the construction of buildings. In addition, there are almost as many people working in the child care industry as there are people working on vegetable farms (see Figure 2).

### Federal and State Subsidies

Approximately \$25 million is brought into the county annually through federal and state subsidies for child care. These funds are used to provide low-income families with affordable licensed and license-exempt child care. Subsidies are also used to fund quality improvement initiatives. By increasing the number of subsidized slots, more parents can enter and become stable participants in the county’s labor force.

### Increasing Economic Output

By enabling them to work, child care makes it possible for parents to contribute to the economy. There are over 4,000 working parents in the county with children 13 and under who used licensed child care in 2002. In total, these parents (all single working parents and one parent in a dual-earning household) earn over \$75 million annually.

### Increasing Productivity

In addition to playing a critical role in the Merced County economy, the licensed child care sector helps sustain the county’s businesses by increasing the productivity of working parents. Stable, quality child care reduces worker absenteeism related to child care needs, increases company loyalty and motivation, and reduces turnover. A national survey found that absenteeism cost \$60,000 for small companies and more than \$3.6 million per year for large companies in 2002.

### Increasing School Readiness

High-quality child care increases children’s readiness to enter school and is an important building block in developing the future workforce in Merced County. Investing in child care improves the success of children in the K-12 public education system by increasing school success, raising test scores and high-school graduation rates, and by lowering the number of students who repeat grades and require special-education. Children in quality child care are also less likely than their peers to commit crimes or enter the welfare system later in life. Cost-benefit analyses across a number of long-term studies indicate that every dollar spent on quality child care saves as much as seven dollars in future public spending in education, social services, and the criminal justice system (see Table 1).

Table 1 Economic Benefits of Investing in Child Care		
Study	Cost	Benefit
Chicago CPC study	\$7,000	\$48,000
Perry pre-school project	\$12,000	\$108,000
Abecedarian project	\$33,000	\$123,000

### Demographic and Economic Outlook for Merced County

Merced County has seen steady population growth, fueled by childbirths and immigration over the last ten years. Projections indicate that the county will experience a similar trend in the next 20 years. Additionally, the county has undergone a dramatic shift in the racial/ethnic makeup of its residents with Hispanics/Latinos accounting for

over 45 percent of the total population—more than any other ethnic/racial group. Economically, Merced County is gradually transitioning from an agriculture-based economy to a service-based economy, but its economic potential is being held back by low labor force participation and the lack of a highly skilled workforce.

Merced County has the youngest population of any county in California with children 14 and under comprising nearly 29 percent of the general population. There are over 13,000 families with children 13 and under in which all parents are working (57 percent of all families with children 13 and under). Over 30,000 children ages 13 and under in the county need some form of child care because their parents are in the labor force.

Poverty, which has a negative impact on a child's ability to succeed in school, burdens over one-fifth of Merced County's residents (with the fourth highest rate of poverty in California). Approximately 28 percent of all families in Merced County with children five and under live in poverty, and 61 percent of single-mother families with children five and under live in poverty.

### **Local Constraints on Child Care in Merced County**

- The private sector, government, and other community leaders are not as actively engaged as they could be in helping families afford quality child care and in creating enough child care to support economic growth.
- Child care is becoming increasingly less affordable in relation to the cost of living in Merced County. Escalating housing costs consume a more and more disproportionate share of the household income of low- and moderate-income families.
- The child care industry is not currently meeting the demand for affordable, accessible, quality child care in the county, and, the demand is growing. Welfare reform and the rising proportion of low-wage jobs in Merced County have dramatically increased the need for subsidized child care.
- The supply of infant child care and care during nontraditional hours is extremely insufficient in the county.
- Child care programs struggle to attract and retain qualified staff. The availability of quality child care is directly related to child care workforce retention and development. Investments in improving the skills and increasing the wages of the child care sector are needed to ensure that all children enter kindergarten ready to learn.

### **Recommendations**

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

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

### **What Businesses Can Do to Support Child Care**

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

### **What Financial Institutions Can Do To Support Child Care**

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

### **What Government Can Do To Support Child Care**

- Develop strategies to make child care affordable for low-income families in Merced County.
- Secure funding to enhance and sustain the county’s school readiness programs.
- Incorporate language that supports child care development into the General Plan of the county and the General Plans of every city.
- Encourage child care facilities development by providing a deferral/waiver of building permit fees and other development fees.
- Develop strategies for sustained funding that provide workforce development for child care professionals, including recruitment, training, and compensation.

- Identify and secure suitable land for the development of new facilities or expansion of existing ones.
- Include child care when developing transportation plans.
- Work with child care leaders to develop incentive programs that encourage providers to care for infants.
- Promote child care for working parents wishing to attend school or training and partner with Merced College, UC Merced, and other higher educational programs to support and sustain child care programs for students, faculty, and staff.

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

- Recognize that child care providers are an economic force in the community.
- Partner with nontraditional stakeholders including: businesses, economic developers, transportation planners, and faith-based organizations.
- Work with businesses and financial institutions to provide business skills and facilities financing technical assistance to child care providers and employees.
- Ensure that parents have continuous care for their children while they work by prioritizing the development of more full-day child care programs and building partnerships between part-day pre-schools and other child care programs.
- Secure federal funding for Early Head Start, which is needed to satisfy the early educational needs of working families with young children.
- Operate child care centers and family child care homes as businesses, acquiring necessary business skills that enable providers to be more financially stable, care for a greater number of children, and provide a higher quality of care.
- Educate parents and providers about the components and benefits of high-quality child care so parents can identify quality child care and providers can enhance the quality of care that they already supply.
- Encourage child care providers to serve on councils and advocacy boards that promote quality and accessible child care.
- Identify cost-efficient ways that the private sector can invest in child care. For example, businesses offering charitable receipts in lieu of cash for in-kind services and contributions to a nonprofit child care provider are eligible for a tax receipt.
- Adopt a varied array of culturally appropriate child care and education programs. Dual- or multi-lingual staff, in particular Spanish- and Hmong-speakers, are necessary to communicate with children and their parents, and culturally sensitive curricula and care are necessary for meeting parents' desires for their children's upbringing.

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

To learn how you can support efforts to improve this important industry and/or to obtain a copy of the full report, please contact Kirsten Lee of Merced County Department of Business-Economic Opportunities at (209) 385-7686.