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*The Economic Impact of
the Child Care Industry In California*

A study prepared by
Steven Moss, M.P.P., Partner, M.Cubed,

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National Economic Development and Law Center
2201 Broadway, Suite 815, Oakland, CA 94612
Ph: 510-251-2600 Fax: 510-251-0600 Website: www.nedlc.org

The Economic Impact of the Child Care Industry in California

Contributors

Prepared by:

Steven Moss, M.P.P., a partner with M. Cubed, a San Francisco consulting firm specializing in resource economics and public policy analysis

Edited by:

Nora Krantzler, PhD, MPH

Research Support:

Paula De Vos, Robert Mott, and Paul Scott, at M. Cubed

Shelley Waters Boots and Yuko Yoshino, California Child Care Resource and Referral Network

Project Support:

Joel Ervice, National Economic Development and Law Center

Stephanie Upp and Chantel Walker, formerly with the National Economic Development and Law Center

Oversight Committee:

Shelley Waters Boots, California Child Care Resource and Referral Network

Joel Ervice, National Economic Development and Law Center

James Head, National Economic Development and Law Center

Alex Hildebrand, County of Alameda

Marcia Meyer, Santa Cruz County Office of Education

Paul Miller, Tri-Cities Children's Center

Mary Petsche, Child Care Coordinating Council of San Mateo County

Pam Sanders, Kern County Office of Education

Katie Woodruff, Berkeley Media Studies Group

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Section One

INTRODUCTION

Although almost half of California's working families pay for child care,¹ the industry's significance to the state's economy has not been fully recognized. Child care has been perceived primarily as a social and educational service. Yet it also is an income-generating, job-creating industry that makes a vital contribution to the state's economy.

The care of children has always been a critical component of the California economy. Even before mothers became a significant part of the state's formal workforce, their care of children, which was generally unpaid, enabled their partners to engage in wage-producing jobs. With increasing numbers of mothers entering the workforce and mothers returning more quickly to work after childbirth,² the shape of the child care industry has changed. More parents have moved from using friends and relatives as providers to using licensed establishments, such as child care centers and family child care homes. Child care is a formal part of

the economy in which child care providers are paid wages and, in turn, pay taxes. Significant investments are made in associated facilities and supplies, with concomitant economic benefits.

The purpose of this report is to demonstrate the significance of the child care industry to the California economy. In fact, child care is an integral part of the state's economic infrastructure. And as the state's economy shifts and its population grows, the need for increased child care capacity will only become more acute, meaning the child care industry will have an even greater impact on the state's economic vitality.

Defining Child Care

Child care includes a range of services that educate and nurture young children and enable parents to work or attend school. For the purposes of this report, child care includes full-day child development programs, as well as part-day care, such as Head Start, state preschool, and other non-government preschools, as



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they are part of the system of care that parents rely on during working hours.

Child care may be licensed or unlicensed. *Licensed child care* meets minimum health and safety standards set by the state legislature and regulated by the Department of Community Care

As the state's economy shifts and its population grows, the child care industry will have an even greater impact on the state's economic vitality

Licensing in the California Department of Social Services (DSS). Licensed establishments include most child care centers and many home-based providers, or family child care homes. Family child care homes are licensed as "small" or "large", depending upon the number and ages of children served (small and large family child care homes can serve a maximum of eight and fourteen children, respectively, of varying ages).

Licensed child care establishments, especially child care centers, must make capital investments in buildings and equipment to provide high-quality care. They must also invest in employee salaries

and benefits to attract and retain educated, credentialed staff. In short, licensed child care must meet state criteria for quality while maintaining a viable business.

In contrast, *unlicensed child care* generally is not regulated by the state and is not governed by any standards. It includes care outside the child's home—in the home of a relative, a neighbor, or a babysitter—as well as care that is provided in the child's home by nannies, babysitters, relatives, or others.

This kind of care can be exempt from licensing (thus the name *license-exempt care*). For example, under State law, a license is not required for a family child care home serving only the provider's children and children from one other family, or a school-based extended day program.

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



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Therefore, this report focuses primarily on licensed care.

The Local Investment in Child Care Project

This report is an outgrowth of the Local Investment in Child Care (LINCC) Project, an initiative that was launched in 1997 with the support of the David and Lucile Packard Foundation. The project was designed to provide a bridge between economic development and child care planning efforts. Currently operating in eight California counties,³ the project developed systematic methods that for the first time articulate the impact of the licensed child care industry on local economies (Appendix A describes these methods in detail). The resulting Economic Impact Reports have shown that child care is an economic force that creates jobs, generates significant local income, and enables parents to work and local businesses to thrive. By articulating child care in economic development terms, the reports have facilitated dialogue between the child care sector and local economic development policy makers, private employers, and private lenders. In

addition, the reports have helped to build local partnerships aimed at increasing the child care industry's capacity to respond to the shifting child care needs of California families.⁴

This report builds on the county Economic Impact Reports to assess the impact of licensed child care on the state of California as a whole.

Outline of the Report

Following Section One's Introduction, Section Two describes child care enrollment and need in California. Section Three analyzes the overall economic effects of child care as measured by both industry earnings and employment. It further explores child care's contribution to productivity, and discusses avoided public sector costs as well as public child care subsidies. Section Four considers future implications for the state's economy. Conclusions are drawn in Section Five.



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Section Two

CHILD CARE IN CALIFORNIA

Participation in the Formal Child Care Sector

Approximately one million children under age thirteen in California rely on licensed child care outside the home. Table I shows a snapshot of the

number of children enrolled full- or part-time in centers and family child care homes in California⁵. In addition to these children, about 351,000 are enrolled in Head Start⁶ or state-contracted child care programs.

Table I
Child Care Center, Family Child Care Home, and
Government Sponsored Estimated Enrollments, 1999⁷

Type of Enrollment	# of Children in Child Care Centers	# of Children in Family Child Care Homes	Total
Infant - Full-time	15,322	42,440	57,762
Infant - Part-time	4,038	12,202	16,240
Preschool - Full-time	163,234	90,019	253,253
Preschool - Part-time	100,170	33,444	133,614
School-age - Full-time	70,783	57,775	128,558
School-age - Part-time	74,325	48,807	123,132
Head Start	86,368	N/A	86,368
State-contracted	265,000	N/A	265,000
Total	779,270	286,346	1,065,616

Source: The table was developed based on raw 1999 Regional Market Survey data, supplemented by public sector enrollment information. These data represent a point in time and may not fully reflect annualized enrollment or capacity. See endnote seven for more information.



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It should be noted that while a significant number of children are in licensed child care in California, licensed supply falls far short of need. According to California Resource and Referral Network data, licensed child care meets only 21% of the estimated need for licensed care for children of all ages. There are 4.7 times more children, ages 0-13, with working parents than licensed child care slots.⁸



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Section Three

THE CHILD CARE SECTOR'S CONTRIBUTION TO THE CALIFORNIA ECONOMY

Accounting for the Child Care Industry

Economists use a number of methods to analyze the impacts of specific business sectors on local, regional, state, and national economies. Much of the data for these analyses comes from surveys conducted by the U.S. Departments of Labor (DOL) and Commerce (DOC). The Department of Labor collects data on employment and wages. The DOC monitors economic activity—principally as measured by gross receipts—by county and sector, assigning individual codes to industries with similar products or services. Output, or gross receipts, measures the size of an industry in terms of its overall sales.

Unlike most industries, the child care sector's output is difficult to quantify based on available DOC or DOL data. The reasons for this difficulty include the methodologies' inability to capture the variety of child care settings using existing categories and the rapidity with which the sector changes. In addition, unlicensed

care is difficult to quantify. As a result, the survey and identification methods underlying these traditional economic accounting tools either do not currently measure the licensed child care industry as a whole or they undercount it in several ways (see Appendix B).

Because of these analytic challenges, two approaches were taken to develop the statewide estimates presented in this report. The first method—the “M.Cubed Estimate”—relied on the 1999 child care market rate survey data collected by the California Child Care Resource and Referral Network. The Network collects these data (including rates charged for different age groups by licensed centers and homes, as well as enrollment) on a county-by-county basis each year. Under this approach, county-specific enrollment estimates were multiplied by county-specific hourly rates to determine overall expenditures. In cases where the survey did not obtain data from all of the facilities in a given county,



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the available data were extrapolated to reflect countywide child care spending.

The second approach relied on county-specific reports from the LINCC Project counties to develop statewide expenditure estimates. The "LINCC Estimate" is based on a methodology that uses licensed capacity and vacancy rates to determine enrollment, which are then used with market rates to estimate gross receipts (see Appendix A for more detail). To develop statewide estimates, the data from the participating counties were extrapolated by calculating the percent of the licensed capacity represented by the counties and assuming that overall child

care expenditures were similar to the LINCC-analyzed counties.

Measuring Industry Output or Gross Receipts

As indicated in Table 2, Californians spent between \$4.7 billion and \$5.4 billion on licensed child care in 1999. It should be noted that even this range underestimates total child care gross receipts, as many California children are cared for by unlicensed providers whose earnings cannot be tracked. Because accurate and complete data on the licensed child care industry are difficult to obtain, and because of the "hidden" nature of paid

Table 2
Estimated Gross Receipts for Licensed Child Care in California, 1999

Type of Care	M.Cubed Estimate	LINCC Estimate
Child Care Centers	\$2 billion	\$2.68 billion
Family Child Care Homes	\$1.25 billion	\$1.23 billion
Head Start	\$528 million	\$528 million
State-supported programs ⁹	\$938 million	\$938 million
Total	\$4.7 billion	\$5.4 billion



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but unlicensed child care, statewide expenditures are actually much higher—possibly by an additional 50 percent, or more, of these estimated totals. (See Appendix C for a detailed discussion of data uncertainties associated with unlicensed care.) In addition, in 1999, licensed child care generated more than \$375 million in tax revenues.

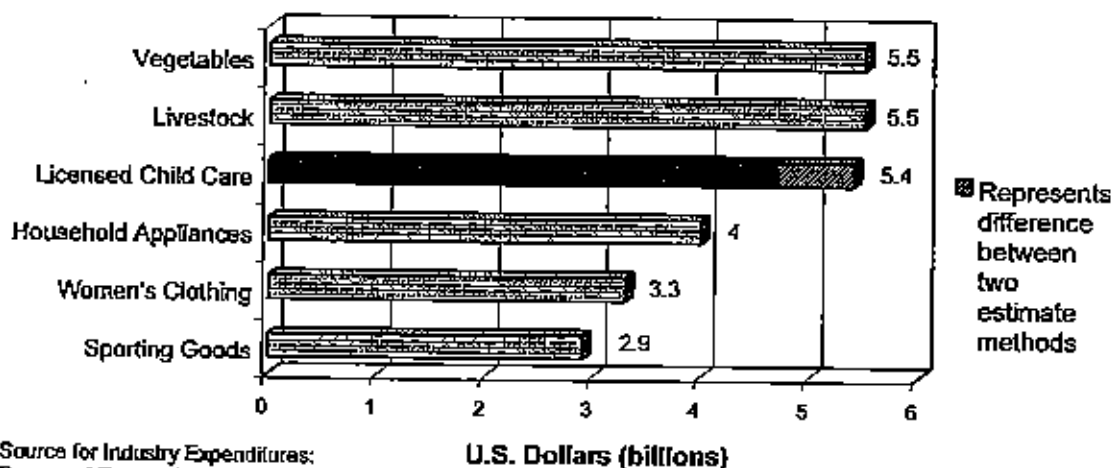
Both of the methodologies provide reasonable means to estimate total child care expenditures. Likewise, approach has limitations.¹⁰ However, given the overall difficulties of accurately estimating child care expenditures, the similarities between the two estimates provides general support

for the overall magnitude of spending found. That is, the difference between the two estimates is modest from an analytic perspective—approximately 15 percent—and supports the finding that Californians spend between \$4.7 and \$5.4 billion on licensed child care, excluding spending on the unlicensed sector.

Figure 1 compares child care earnings with earnings in other major industries in California. As indicated in the table, child care produces almost as much in gross receipts as the livestock and vegetable crops industries, and significantly more than other large industries in the state.

Figure 1

Licensed Child Care Industry Gross Receipts Compared with Other Industries in California, 1999



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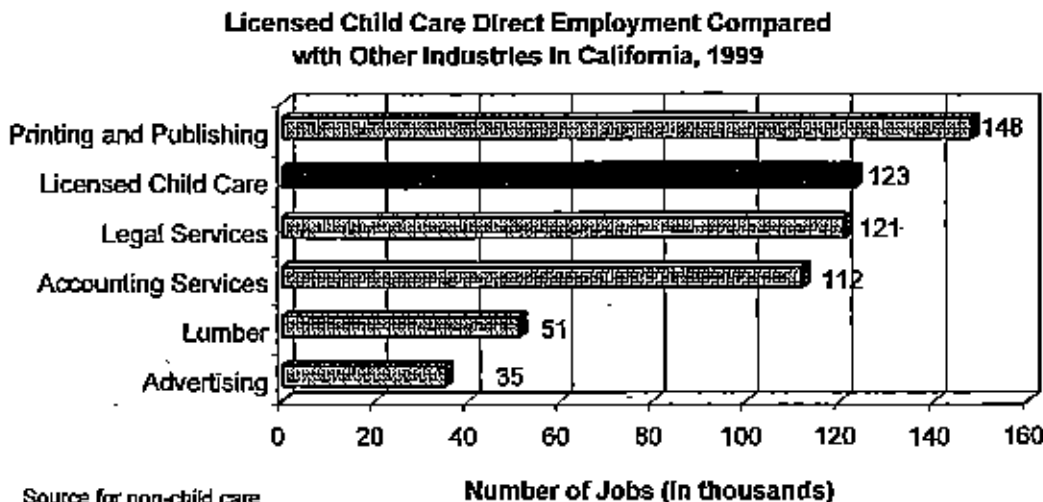
Direct Employment in Child Care

Based on the statewide expenditure estimates and average annual child care wages, licensed child care directly employs 123,377 people in California,¹¹ including teaching staff and non-teaching staff (for example, custodians, bookkeepers, cooks, receptionists, directors, etc.). Figure 2 compares direct child care employment with employment in other industries. As shown in the figure, licensed child care directly employs more Californians than the state's advertising, lumber, and accounting industries, and almost as many as the legal services industry.

Indirect and Induced Employment

Like most industries, licensed child care generates *indirect* employment through its purchases of goods and services, and *induced* employment reflecting goods and services that are consumed by households directly and indirectly earning income from the industry. For example, a child care operation supports jobs related to food preparation, toy manufacturing, and office/instructional supplies. This report estimates indirect and induced jobs based on multipliers that are specific to the child care sector, taken from the ImpactPlanning (IMPLAN) input-output model. (See

Figure 2



Source for non-child care employment figures:
<http://www.calmis.ca.gov/htmlfile/subied/indtable.htm>



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Appendix D for an explanation of this widely used model.)

Excluding unlicensed care, total child care expenditures in California result in more than 209,000 jobs, over half of which are in the child care industry

Excluding unlicensed care, total child care expenditures in California result in more than 209,000 jobs, over half of which are in the child care industry itself

itself.¹² The remaining indirect and induced jobs – approximately 86,000 – include employment in food service; transportation; publishing (for instance, of educational materials); manufacturing (for example, toys); construction (for example, carpentry and facility repair); and the financial, real estate, and insurance sectors.

Contribution to Productivity

The child care sector plays a critical role in the state's productivity growth and, as a result, its overall economic prosperity. Productivity refers to getting more output from the same level of inputs and is enhanced by a number of

factors, including infrastructure. For instance, better roads provide for faster turnaround of goods and services. Without productivity increases, the economy would grow no faster than increases in population and would effectively stagnate.

Licensed child care contributes to productivity by enabling parents to work. Without adequate child care infrastructure, parents' participation in the work force would be much lower, significantly reducing the state's pool of skilled labor. The future of California's economy will be in the hands of parents in general, and women in particular. For instance, based on national data, almost one-third of California children are cared for by only one parent; about 15 percent of these live with their father.¹³ By the year 2010 it is likely that 85 percent of the labor force will consist of parents, and the number of working women will exceed working men.¹⁴ Many of these employees will be single parents and two-parent working families requiring child care.



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Licensed child care makes three primary contributions to labor productivity:

- *Increased labor force participation.*

Child care increases labor force participation in terms of both the number of jobs and quantity of hours worked. That is, in exchange for a portion of their paycheck, child care allows parents to work, and/or to work additional hours, which in turn provides personal income to meet other familial needs while helping to meet the economy's demand for more labor.

- *Higher income.* Child care permits parents to maintain job skills and continuous employment experience, reducing potentially wage- and skill-reducing absences.

- *Lower absenteeism and turnover rates.* Licensed child care contributes to a stable and consistent workforce by providing a reliable source of care.¹⁵

California's child care sector is analogous to the state's transportation system. Our system of roads, mass transit, and airports enables people to get to work, with the confidence that at the end of the day they will be able to return home.

California's child care sector is analogous to the state's transportation system. Traffic congestion and poor quality transit – like inadequate child care infrastructure – slow workers down and reduce productivity

Traffic congestion and poor quality transit – just like inadequate child care infrastructure – slow workers down and reduce overall productivity.

Estimating Child Care's Effect on Productivity

In general, it is difficult to decisively determine how the licensed child care sector affects labor productivity. A large number of changes—including the rise of high-technology, shifts from manufacturing to service industries, “globalization,” and alterations in gender roles—have impacted both short- and long-term productivity. Untangling these



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complex variables is not easy, and to date very little effort has been expended to isolate the child care sector's influence on economic growth.

However, one promising way to develop an estimate of the economic contribution of the child care sector is to examine how many jobs parents are able to hold because of their ability to find secure care for their children. That is, without the formal child care sector, parents would have to stay at home with their children; depend on informal

care, some of which would be paid for; or do some combination of both, and work part-time. From this perspective, the dollar value of formal child care is the extra wages parents are able to generate for their families after child care costs are netted out.

The average child care provider earns approximately \$16,000 a year, and providers charge from \$4,000 to \$11,000 or more annually.¹⁶ Studies indicate that, absent government subsidies, higher-income parents are more likely to pay for child care than low-income parents.¹⁷ Based on the conservative assumption

that, on average, working parents with children in licensed child care earn \$31,000 a year,¹⁸ and netting out the wages of the caregivers themselves, *the licensed child care sector enables Californians to earn approximately \$13 billion annually.* These earnings represent

The licensed child care industry enables Californians to earn approximately \$13 billion annually. These productivity impacts ripple throughout the California economy

the wages and salaries parents are able to make because the licensed child care sector enables them to work.

As a result of multiplier effects, as explained in Appendix D, the wages earned by working parents result in other indirect and induced earnings. Similarly, these productivity impacts ripple throughout the California economy, resulting in higher overall industry output throughout the state. The impact of these earnings is shown in Table 3. The table shows direct, indirect, and induced productivity effects of licensed child care. As the table indicates, the \$13 billion in



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parental earnings has a significant impact on the state's economy. These productivity gains create more than \$40 billion in total direct, indirect, and induced personal income, generate almost \$5 billion in indirect tax revenues¹⁹, and support approximately 1.1 million jobs.

Moreover, productivity gains created by the licensed child care industry contribute \$65 billion to the gross state product, which measures the total value of goods and services produced in California. These gains represent approximately six percent of the state's trillion dollar economy, and are larger than the sector-specific contributions to gross state product of a number of the state's high-profile industries (see Figure 3), including

communications (\$23 billion), electronics (\$23 billion), computer and data processing services (\$21 billion), motion pictures (\$16 billion), or food products (\$15 billion).

In addition, child care has a significant impact on overall industry output (or gross receipts), which reflects the amount of revenue generated by industries in which parents with children in the licensed child care sector work. As such, the productivity effects of licensed child care amount to more than a \$100 billion contribution to industry output.

An illustrative example: because affordable, quality child care is available, a married couple is able to open a small computer repair business together. First,

Table 3

Direct, Indirect, and Induced Productivity Effects of Licensed Child Care, 2000

Economic Variable	Contribution
Labor Income	\$44 billion
Value Added (Contribution to Gross State Product)	\$65 billion
Industry Output (Gross Receipts)	\$105.3 billion
Indirect Business Taxes	\$4.9 billion
Employment (Number of Jobs)	1.1 million



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that business provides income for the couple. The business also employs six other people, providing income for them and their families. Additionally, the business supports other companies and sectors by purchasing their products. The business also pays various taxes, produces its own goods and services that contribute to the health of the gross state product, and generates revenue.

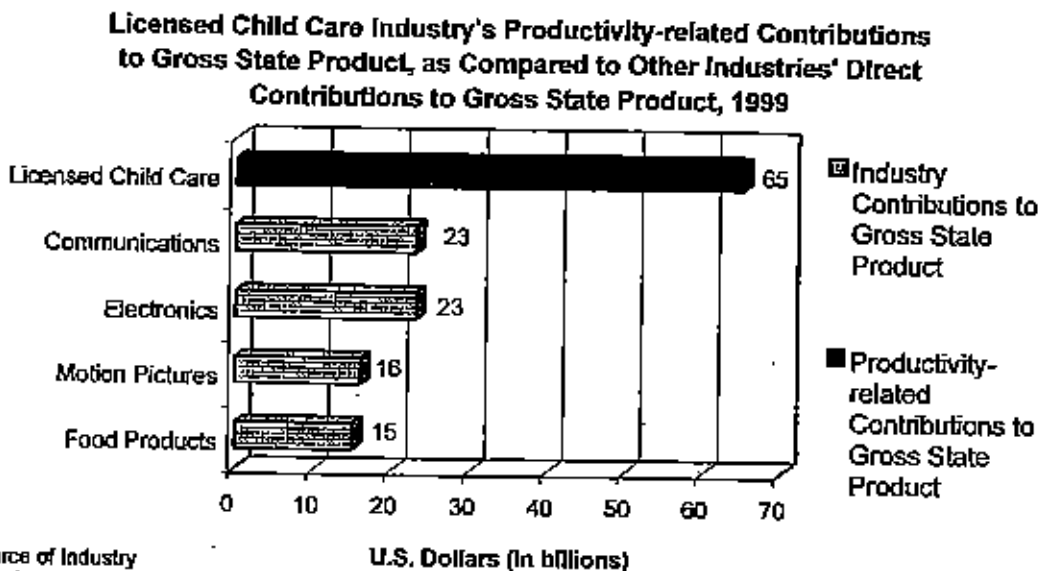
Avoided Public Sector Costs

In addition to these economic benefits, the formal child care sector, by enabling more parents to participate in the

workforce, likely serves to reduce public sector spending (for example, on criminal justice and welfare services). While this report did not study this effect specifically, some general observations can be made.

Economists generally agree that investments in education at all levels provide for essential social and economic benefits, including increased earning power and higher economic growth. Schools are considered to be the cornerstones of the "knowledge economy," in recognition of the increasing importance to the state's economy of jobs that are dependent on workers'

Figure 3



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intellectual, rather than physical, capacities.

As the evidence grows that high quality early childhood education programs can profoundly influence a lifetime of development, it is increasingly compelling to consider the child care sector as part of the knowledge economy. For example, high quality child care improves school readiness, and positively predicts children's performance well into their school careers.²⁰ Quality child care and other preschool programs have been shown to improve cognitive skills as well as language use and reading recognition and comprehension.²¹ Likewise, quality child care has been shown to contribute to:

- Reductions in special education costs.
- Lower school drop-out rates.
- Reduced levels of criminal activity. For example, one study found that participants in a preschool program directed toward low-income families "committed fewer delinquent or criminal acts, the acts they committed

were less severe, and they were less likely to be chronic offenders..."²²

- Increased earning power, and reduced risks of poverty.²³

The most notable study of the long-term impacts of a high-quality early childhood program for low-income children found that after 27 years, for each \$1 of public investment more than \$7 was saved in later public expenditures because of the increased likelihood that children would be literate, employed, and enrolled in post-secondary education. They were less likely to be school drop-outs, dependent on welfare, or arrested for criminal activities or delinquency.²⁴

Child Care Industry Subsidies

Local, state, and federal governments provide support for child care services, including financing child care, child development programs, child care facilities, and training. Total state and federal funding for child care and development exceeded \$2 billion in fiscal year 1999, with almost 600,000 children benefiting in some way from publicly-



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funded child care programs. The state is expected to spend \$2.6 billion on child care programs in FY 2000.²⁵ It should be noted that these funds are spent *on both licensed and license-exempt care*,²⁶ as well as infrastructure costs. In other words, only a portion of state child care funds contribute to the gross receipts of the licensed child care industry.²⁷ In addition, state taxpayers receive an estimated \$310 million in credits through the Dependent Care Tax Credit, in which families may claim an income tax credit for a portion of their child care expenses.²⁸



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Section Four

FUTURE IMPLICATIONS FOR THE CALIFORNIA ECONOMY

The child care sector contributes significantly to the California economy. In 1999, Californians spent between \$4.7 and \$5.4 billion on licensed child care programs alone, excluding care by unlicensed providers. Extrapolating the recent growth of the child care industry, it is likely that expenditures in 2000 reached almost \$6 billion.²⁹ Further, the licensed child care industry directly employs more Californians than the advertising, lumber, or the accounting services industries.

As a result, even excluding unlicensed or informal care, the sector serves to create enough income to support almost 209,000 jobs, of which more than half are in the child care industry itself. In addition, by enabling parents to seek paid employment while the children are cared for in licensed care, the sector's productivity impact creates another 1.1 million jobs in California.

As the state's population grows—from approximately 35 million citizens

today, to almost 40 million by 2010—so will its number of children. The population of Californians aged four or younger is expected to increase by more than 325,000 over the next decade, more than a 10 percent rise. Likewise, the proportion of parents who depend on formal child care services so that they can

Without adequate child care infrastructure, the state's economic prosperity would be threatened, and its growth would be slowed

participate in the workforce is also expected to grow.³⁰ In addition, many families with a non-working parent also enroll their children in early childhood education programs; about one-third of California children under age six with a parent who is not in the labor force are in some type of child care program.³¹ Yet at the same time, it is becoming increasingly challenging to maintain even the existing child care infrastructure. The industry suffers from turnover rates in excess of 30



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percent annually;³² it is difficult to find new workers, especially skilled ones;³³ and it is under-capitalized, lacking adequate facilities to accommodate the expansion required to meet the need for services.

Many California families have trouble finding child care in their communities. In particular, many centers are not able to provide cost-effective infant care since it requires more staff per child. For example, in Los Angeles, San Diego, San Francisco, and Siskiyou Counties, fewer than five percent of slots in licensed facilities are for infants.³⁴ Frequently, school-age care is also not cost-effective for centers to offer, because school-age children are in care for fewer hours. As a result, there is a limited supply of slots for these age groups. Other examples of supply constraints throughout the state include:

- More than 80 percent of California working mothers say it is either difficult or extremely difficult to find appropriate child care, and more than 20 percent have been prevented from

taking a job as a result of inadequate access to care.³⁵

- Licensed child care supply meets only 21 percent of the estimated need for licensed care for all ages, based on the population of California children who live in households in which their sole caretaker or both caretakers work. This supply-demand gap varies by county. For example, in Alpine County, licensed care meets 78 percent of the need for all children; in Los Angeles County, supply meets only 17 percent of the need.³⁶
- Care during non-traditional hours (evenings, weekends, and overnight) is in short supply, particularly at child care centers. Only 4 percent of centers offer care during these hours, while 33 percent of family child care providers do so.³⁷
- Lack of affordable licensed child care is responsible for job loss and failure to obtain work among low-income parents, according to a survey of 500 Los Angeles County residents. More



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than half lost a job, and over two-thirds failed to seek a job, because of difficulties in locating child care.³⁸

The health of the state's economy is dependent on the ongoing provision of necessary "infrastructure," including transportation, housing, and, most importantly, a qualified labor force. Parents make up the largest—and fastest growing—source of skilled labor. As a result, access to child care is a critical component in the availability of qualified workers: Without adequate and affordable care, parents cannot work.

Without an adequate child care infrastructure, the state's economic prosperity would be threatened, and its growth would be slowed. Unless the licensed child care sector adds sufficient affordable capacity, the state's economic growth will be hobbled, and family incomes will decline. For example, just a half-percent reduction in the state's growth rate, caused by labor shortages created by inadequate child care infrastructure, would result in a loss of approximately 85,000 jobs, and more than a \$5 billion reduction in personal income.



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Section Five

CONCLUSION

Licensed child care is a significant contributor to California's growing economy in several ways, including:

- **Gross receipts:** In 1999, the industry generated between \$4.7 and \$5.4 billion in gross receipts—comparable in size to other large California industries, including livestock and vegetable production.

Further, each licensed child care slot represents, on average, approximately \$6,000 worth of spending in the local economy.³⁹

- **Employment:** Licensed child care directly employs approximately 123,000 people, over twice the number employed in the lumber industry and over three times as many as in the state's advertising business. On average, approximately every seven licensed slots represent a child care job, with associated overhead and benefits.⁴⁰ In addition, an estimated 86,000 jobs are supported by the

indirect and induced effects of the licensed child care industry.

- **Productivity:** Licensed child care enables parents to work, earn higher incomes, and reduce their absenteeism and turnover rates. The sector enables California parents to earn approximately \$13 billion annually.

Child care, in addition to its significance as an industry, must be recognized as an essential component of the infrastructure supporting California's economy

Licensed child care contributes \$65 billion to the gross state product (the total value of goods and services produced in California), more than many of the sector-specific impacts of the state's high-profile industries, including communications, electronics, or motion pictures.

The lack of accurate data available on the child care industry as a whole has made it difficult to precisely assess its



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contribution to local and state economies. As a result, its significance to the economy has largely gone unrecognized. Instead, child care has been acknowledged primarily for its contributions as a social and educational service. The methodologies developed for the LINCC counties, and for the statewide estimates described in this report, represent the first

serious efforts at making such economic assessments. Although more and better data on the child care industry are needed, the analyses presented here demonstrate that child care, in addition to its significance as an industry, must be recognized as an essential component of the infrastructure supporting California's economy.



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Endnotes

¹ Linda Giannarelli and James Barsimantov, *Child Care Expenses of America's Families*. Occasional Paper Number 40, The Urban Institute, December 2000.

² Child Care Partnership Project, "It's Good Business to Invest in Children," U.S. Department of Labor, Bureau of Labor Statistics, News, February 4, 2000. Many of these women are in part-time jobs. For example, on average, working women with children under the age of three work 30 hours a week; with children from three to five, 33 hours a week, and with children from six to seventeen, 36 hours a week.

³ The current LINCC counties are Alameda, Kern, Los Angeles, Monterey, San Mateo, Santa Clara, Santa Cruz, and Ventura. The David and Lucile Packard Foundation supports six counties; additional LINCC projects in Los Angeles and Ventura Counties are funded with local public dollars. All the counties have local matching dollars and/or in-kind contributions.

⁴ For example, the partnerships enabled leveraging of financial and political resources essential for child care facilities and business development; incorporation of child care into local jurisdictions' economic development planning; enhancement of the child care industry's small business entrepreneurial capacity; and an increase in incentives for investments in child care, such as loan guarantees and tax credit incentives for facility development. County *Economic Impact Reports* have been written for the eight LINCC counties as well as San Benito County. To request the reports or to learn more about the LINCC project, contact the National Economic Development and Law Center.

⁵ In 1998, such care was provided at 30,880 licensed family child care homes and 9,193 licensed child care centers. Source: California Child Care Resource and Referral Network. *The California Child Care Portfolio, 1999*. November 1999.

⁶ The federal Head Start program began in 1965 as a comprehensive child development program to support children and families. The program is targeted at children whose families are below the poverty line or receiving public assistance and who are not yet enrolled in school.

⁷ The table was developed based on raw Regional Market Survey data, supplemented by public sector enrollment information. Because the survey data was not comprehensive – not every child care facility was surveyed – the enrollment data was adjusted upwards to account for non-surveyed centers and homes. That is, individual county enrollment in full- and part-time care was increased by the percentage by which the total number of facilities exceeded the number of surveyed facilities. These data represent a point in time and may not fully reflect annualized enrollment or capacity. In addition, although there are more than 818,000 licensed "slots" in the state, the total number of children enrolled is higher due to the use of part-time care; multiple children may share a single licensed slot.



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⁸ *The California Child Care Portfolio, 1999, op. cit.*

⁹ This estimate reflects state expenditures on programs that are not captured by the Regional Market Rate Survey. Expenditures include programs directly contracted by the state, expenditures related to improving service quality, and other expenditures that reflect essential overhead to child care facilities. Expenditure totals include (in millions):

<u>Program</u>	<u>FY 99-00</u>
General Child Care	\$ 474,018
Preschool	\$ 207,194
Migrant Child Care	\$ 22,790
After School Programs	\$ 85,000
Resource and Referral	\$ 15,047
Quality, Administrative	\$ 25,488
Child Care Facilities Revolving Fund	\$ 40,828
Cal-Learn Child Care	\$ 4,545
SAPID	\$ 21,873
Extended Day Care (Latchkey)	\$ 27,937
Non-Direct Child Care Services	\$ 13,484
Total	\$ 938,204

Source: California Department of Finance

¹⁰ The methods used to develop the child care expenditure estimates represent two distinct approaches. The M.Cubed method, which results in the lower of the two estimates, could be considered a "bottom-up" approach. This method relies on county-specific survey data indicating the number of children receiving part- and full-time licensed care, as well as the average rates for that care. Its main limitation is that the survey does not reach all licensed caregivers in all counties, so missing data must be accounted for in this case by using the average county-specific enrollment and rate data. The LINCC method, which results in the higher estimate, could be considered "top-down." This method relies on county-specific data on the number of licensed slots and vacancy rates to determine enrollment, expenditures and employee levels. This method is limited by the accuracy of the capacity data and vacancy rate information used in the calculations. Finally, in extrapolating the LINCC estimate from the county reports, it is assumed that expenditures and the use of center- versus family-based care are similar to other counties in the state.

¹¹ Employment estimates are based on use of the LINCC estimate of direct expenditures (i.e., \$5.4 billion) with the ImpactPlanning (IMPLAN) input-output model (see Appendix D). Using



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the M.Cubed estimate of direct expenditures (i.e., \$4.7 billion) results in a direct employment calculation of 107,383 jobs.

¹² As with the direct employment figures, indirect and induced employment estimates are based on use of the LINCC estimate of direct expenditures (i.e., \$5.4 billion) with the ImpactPlanning (IMPLAN) input-output model (see Appendix D). Using the M.Cubed estimate of direct expenditures (i.e., \$4.7 billion) results in an indirect and induced employment calculation of 75,237 jobs.

¹³ Child Care Partnership Project, op. cit.

¹⁴ U.S. Census Bureau, *Current Population Reports*, P20-514, 1999.

¹⁵ Galinsky, Ellen. *National Study of the Changing Workplace*. New York: Families and Work Institute, 1997. California Child Care Resource and Referral Network, op. cit.

¹⁶ California Child Care Resource and Referral Network. *Regional Market Rate Study*, 1999.

¹⁷ See, for example, Lynne Casper, "My Daddy Takes Care of Me!" *Current Population Reports*, P70-59, September 1997; Tamar Lewin, "A New Majority—Families With Both Parents Working," *San Jose Mercury News*, October 24, 2000.

¹⁸ According to Department of Finance data, median family income in California is \$46,500; many parents earn substantially less than \$31,000 a year. However, it is likely that families paying for child care have above-average incomes. Likewise, median household income—reflecting single parents—is \$40,600, substantially above the assumed average earnings.

¹⁹ Indirect Business Taxes (IBT), as reported by IMPLAN, consist of excise taxes, property taxes, fees, licenses, and sales taxes paid by businesses, and sales and use taxes paid by individuals to enterprises in the normal course of business. They do not include taxes on profit or income. IBT values are derived from U.S. Bureau of Economic Analysis Gross State Product data, wherein the ratio of employee compensation to IBT is determined for each industry sector in the 500+ sector input-output model. The values are then stepped down to the county level. The IBT values reported in the impact tables are thus statistically-based estimates of the taxes, fees, etc., paid at the time of the transaction, and are the sum of amounts going to all jurisdictions. They do not distinguish between the portion of sales and use taxes retained by the state government (which is 6 cents out of the 7+ cents per dollar of taxable sales collected by the merchant), nor account for any subsequent redistribution of the state's portion of the sales tax revenues back to local jurisdictions. The total amount of IBTs is included because it comprises part of the value of Value Added by local factors of production (labor and capital) in the course of processing raw materials and intermediate products to produce goods and services going to final demand—i.e., the value of Total Output.



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²⁰ There is evidence that regardless of family income, children who have participated in high quality child care programs do better in school than their peers who have not. Ellen S. Peisner-Feinberg, et al., Cost, Quality and Outcomes Study, at <www.fpg.unc.edu/CEDL/PAGES/cques>. Gordon Cleveland and Michael Kashinsky, *The Benefits and Costs of Good Child Care: The Economic Rationale for Public Investment in Young Children—A Policy Study*. Toronto: University of Toronto, March 1998.

²¹ Frances Campbell, Ph.D. et al., *The Carolina Abecedarian Project*, Frank Porter Graham Child Development Center, University of North Carolina at Chapel Hill, October 2000.

²² Hirokazu Yoshikawa, Long-Term Effects of Early Childhood Programs on Social Outcomes and Delinquency. *The Future of Children* Volume 5, Number 3, Winter 1995.

²³ For example, a study of an enriched preschool program found that participants' earnings when they reached 27 years of age were 60 percent higher than a control group's. Lynn A. Karoly, et al., *Investing in Our Children*. RAND, 1998.

²⁴ L.J. Schweinhart and D.P. Weikart, *Significant Benefits: The High/Scope Perry Preschool Study Through Age 27*. High/Scope Press, 1993. Cleveland and Kashinsky 1998, op. cit.

²⁵ Data compiled from California Departments of Finance, Consumer Affairs, and Social Services.

²⁶ Memorandum to All Child Care and Development Contractors, from Michael Jett, Child Development Division, California Department of Education, August 15, 2000; Telephone interview with Stan Moriguchi, California Department of Education, August 28, 2000.

²⁷ Beyond those programs included in this report's expenditure calculations for the licensed child care industry (see Table 2), it is difficult to determine the proportion of state child care funds that contribute to licensed child care services. This difficulty is due to data uncertainties, particularly with the CalWORKS and Alternative Payment program. That is, it is not known what percentage of these programs support licensed vs. licensed-exempt child care.

²⁸ Taxpayers may claim up to \$2,400 in dependent care expenses for one child, or \$4,800 for two or more children. The credit is on a sliding scale, with lower income families receiving slightly larger credits.

²⁹ Estimate based on approximate 5% yearly increase in licensed capacity [*The California Child Care Portfolio, 1999*, op. cit.] and estimated 15-20% annual increase in government expenditures.

³⁰ Galinsky, Ellen; and *The California Child Care Portfolio, 1999*, op. cit.

³¹ *1999 Key Facts*.



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³² Children's Defense Fund, *California: Child Care Challenges*, May 1998.

³³ Center for the Child Care Workforce, "Rights, Raises, Respect," *News and Issues for the Child Care Workforce*, March 21, 2000.

³⁴ *The California Child Care Portfolio, 1999*, op. cit.

³⁵ Cathleen Decker, "Finding Child Care a Tough Task for Many Californians," *Los Angeles Times*, June 20, 1999.

³⁶ *The California Child Care Portfolio, 1999*, op. cit.

³⁷ Ibid.

³⁸ Carla Rivera. Child Care Shortage Costing Jobs. *Los Angeles Times*, October 26, 2000.

³⁹ Average was determined by dividing expenditure estimates by number of statewide slots.

⁴⁰ Average was determined by dividing number of statewide slots by direct employment estimates.



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Appendix A

LINCC COUNTIES' GROSS RECEIPTS AND DIRECT EMPLOYMENT METHODOLOGIES

Gross Receipts

For both family and center-based care, the estimates of gross receipts represent a "snapshot" of the industry taken at a particular time. It is important to note that counties can capture gross receipts for licensed care only; adding unlicensed care would significantly increase the gross receipts figures.

Family Child Care Homes

$$\begin{array}{lclcl}
 \text{Licensed Capacity} & \times & \text{Vacancy Rate}^1 & = & \text{Vacant Slots} \\
 \text{Licensed Capacity} & - & \text{Vacant Slots} & = & \text{Enrollment}^2 \\
 \text{Enrollment} & \times & \text{Average Cost/Child/Year} & = & \text{Gross Receipts}
 \end{array}$$

Centers

For centers, there are three separate calculations—for infant care, preschool care, and school-aged care. "Center-based care" in this case includes Head Start and State Preschool, nonprofit, school-affiliated, and proprietary centers.

$$\begin{array}{lclcl}
 \text{Licensed Capacity} & \times & \text{Vacancy Rate} & = & \text{Vacant Slots} \\
 \text{Licensed Capacity} & - & \text{Vacant Slots} & = & \text{Enrollment} \\
 \text{Enrollment} & \times & \text{Average Cost/Child/Year} & = & \text{Gross Receipts}
 \end{array}$$

¹ Providers may be licensed for more children than they are actually willing to take; the number of vacancies refers to the actual number of slots that the provider would like to fill. For example, a provider licensed for 12 who cares for 8 children and would care for no more than 9 has 1 vacancy, not 4.

² Actual enrollment may be different from the number of licensed slots due to children sharing slots. For example, in Santa Cruz County, there are 8,213 licensed slots serving 9,064 children. Because most counties do not have access to actual enrollment figures, this methodology was developed to approximate them.



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Direct Employment in Licensed Child Care

Family Child Care Homes

Family Child Care Homes licensed for 6 = 1 Employee
Family Child Care Homes licensed for 12 = 2 Employees

Centers

Teaching Staff:

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

Multiply the average "FTE for Staff" by the number of staff required by licensing:

hours open/8 hours = FTE for Staff

1. Center-based infant care:

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

2. Center-based preschool care:

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

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

Non-Teaching Staff:

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



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

Custodians: Typical practice is to have one custodian for every center over 80 children. Therefore, the formula is:

of centers with slots for more than 80 children = # of custodians

Cooks: Typical practice is that state-funded centers and larger centers have cooks. Centers may also hire catering services.

of state-funded centers + number of non-state funded centers with over 80 children = # of cooks

Receptionists: Typical practice is to have one receptionist for every center over 80 children

of centers with slots for more than 80 children = # of receptionists

Non-teaching supervisory staff (directors): Typical practice is to have one director for every 80 children.

of licensed slots / 80 = # of supervisory staff

Family workers: Typical practice is that they are employed part-time (average 50% time) at state-funded centers.

of state-funded centers / 2 = # of family workers

Administrative (off site): Typical practice is for larger centers to have off-site as well as on-site administrators.

of centers with slots for over 80 children = # of administrators



Appendix B

STANDARD INDUSTRIAL CLASSIFICATION STRUCTURE AND THE CHILD CARE INDUSTRY

The Standard Industrial Classification (SIC) system assigns a three- or four-digit code to industries with similar services or products. It also aggregates similar industries into sectors or groups, which are expressed as one- or two-digit SIC categories, respectively. For example, Sectors 7 and 8 include all service industries, and Major Group 83 includes all social services.¹

Department of Commerce and Department of Labor estimates of the size of the industry seem to underestimate it for several reasons. Child care activities seem to be dispersed across a number of SIC categories and are not fully captured in any one of them. SIC 8351 (Child Day Care Services) is the one category that is dedicated solely to child care and development activities. It includes all privately-operated child day care centers, child group day care centers, nursery schools, and preschool centers, but does not include centers that are operated in conjunction with public schools.² This omission is significant, since one survey showed that 40% of state-subsidized child development centers, state preschools, and Head Start programs in California are operated by local school districts and county offices of education.³ Second, family child care, a commonly used form of licensed care, is not explicitly included as a category of service in any SIC codes.

The alternative of the DOL approach is also inadequate because it excludes self-employed persons and small establishments, which represent a major portion of the child care industry, including almost all family child care homes and many proprietary centers.

In addition to these identification problems, some child care economic activity is unlicensed and is likely not reported to the IRS nor included in any SIC code or DOL measure. IRS staff estimate that up to 40% of work performed by independent contractors is not reported as income. This underreporting is likely to be even greater among providers who do not undertake to comply with basic licensing and other business formalities.

¹ Office of Management and Budget, *Standard Industrial Classification Manual 1987*, NTIS, Springfield, VA, 1987. The reference book is available through most federal government bookstores.

² This category includes expenditures by businesses on child care facilities, as well. However, these expenditures are a very small portion of the total.

³ National Economic Development & Law Center, "Child Care and Head Start Facilities in California," *Financing Early Childhood Facilities*, January 1996.



Appendix C

DATA UNCERTAINTIES AND UNLICENSED CARE

As mentioned in the body of the report, while the economic analysis focuses on licensed care, it should be noted that the unlicensed care sector also makes significant contributions to the state's economy. Like licensed care, the unlicensed sector generates jobs and revenue, and allows parents to work. However, given its informal nature and significant data gaps in the current research, it is extremely difficult to conduct an analysis of the licensed-exempt and/or unlicensed child care industry. The most recent data from two different sources highlight the challenges:

- "Who's Minding the Kids? Child Care Arrangements," a report by the U.S. Census Bureau based on the Fall, 1995 Survey of Income and Program Participation (SIPP), examined, amongst other things, the type of care used by parents with children under fifteen years of age. Based on SIPP, 29.9% of all children under five years old are in an "organized facility" (i.e., presumably a licensed center, nursery, or preschool); 50.1% of children are cared for by relatives (e.g., parents, grandparents, siblings, etc.); and 28.8% of children are in "other nonrelative care." This last category is the most uncertain: 12.6% are estimated to be in "family day care," 9.1% are cared for in the child's home, and 9.0% are in "other care arrangements." Family day care may be mostly licensed care, and "other care arrangements" were probably provided by "friends or neighbors of the family." Adding to the confusion, percentages exceed 100% as children were counted in more than one arrangement type due to multiple arrangements. Similar complexities surround the data for other age groups. Further, given the nation-wide nature of the data, the report does not capture the particulars of child care in California.
- "Child Care Arrangements for Children Under Five: Variation Across States," a report published by The Urban Institute, also presents a complex and uncertain picture of the informal care sector. Based on data from the 1997 National Survey of America's Families, it reports that in California, 19% of children under five with employed mothers use "center-based care" as their primary care arrangement; 60% are in relative/parent care; 16% are in "family child care," and 5% are cared for by nannies/baby-sitters. While "center-based care" presumably represents licensed care, "family child care" includes both licensed and unlicensed arrangements. The report also does not include any care arrangements for children with non-working mothers, nor does it examine the child care arrangements of children above the age of five.

With such data gaps, a more detailed examination – even estimation – of the contributions of informal care to the California economy becomes difficult and unreliable. It is an area that warrants further research in order to better understand how this significant child care sector adds value to local communities.



Appendix D

ECONOMIC IMPACT ESTIMATING METHODOLOGY

Economic impact estimates in this report are based on application of the California module of the IMPLAN Input-Output (I-O) model. Initially developed for use by the U.S. Forest Service, IMPLAN is now used in many fields. It relies on the same basic model structure and underlying economic data as the U.S. Department of Commerce Bureau of Economic Analysis Regional Impact Modeling System (RIMS), the model that was used in the LINCC counties' analyses.

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

IMPLAN contains more than five hundred economic sectors, and uses economic census data to compile county-level wage and salary information at the four-digit standard industrial code (SIC) level. National data are adjusted for the industrial and trading patterns for the subject region—in this case, California. Based on this structure, IMPLAN estimates the regional economic impact that would result from a dollar change in the output of local industries delivered to final demand (that is, to ultimate purchasers, such as consumers outside the region).

The estimates presented in the report include three primary "multipliers," as follows:

- **Direct effects:** Effects introduced into the state's economy as a result of spending on child care services.
- **Indirect effects:** Effects reflecting spending by workers and local vendors generated by the direct effects. These effects result from a change (for example, an increase) in money spent by individuals or firms that incur direct impacts.
- **Induced effects:** Effects of consumption of primarily retail goods and services consumed by households directly and indirectly earning income from the project. These effects reflect changes in the state's economy caused by changes (for instance, increases) in spending patterns as a result of the direct and indirect activity.



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The multiplier effect, identified as "Type II" in the IMPLAN model, estimates how many times a given dollar of investment will be spent as it works its way through the economy. Multipliers can be applied to various categories. For example, income multipliers—additional spending associated with every dollar of income—tend to be less than one. This is because not all income is spent; some is saved, or used to pay debt. Employment multipliers—the number of jobs created per million dollars of investment—can range from five to sixty-five, depending on the activity. Alternatively, employment multipliers can relate to the number of indirect and induced jobs engendered by a dollar of investment in direct employment. This multiplier category ranges from low—less than two—to quite high. Multipliers are low where simple products are being purchased. For example, buying a sandwich induces the need for unsophisticated labor (sandwich making) and basic inputs (agricultural products and bakeries).

For child care, the direct, indirect, and induced multipliers for California (1997) are as follows:

• Total output:	2.511
• Labor (employee compensation and providers' earnings)	2.432
• Total Value Added	3.055
• Employment	1.680

For direct, indirect and induced employment estimates, the IMPLAN model provided the following data:

Method 1: \$4.7 billion increase in annual expenditures on Child Day Care				
Impact on CA Statewide Employment				
Industry Sector	Direct*	Indirect*	Induced*	Total*
Agriculture	0	418	634	1,051
Mining	0	18	54	71
Construction	0	1,202	4,231	5,434
Manufacturing	0	1,537	3,323	4,860
TCPU	0	1,022	1,515	2,537
Trade	0	1,851	14,523	16,374
FIRE	0	2,769	3,219	5,987
Services	107,383	8,218	19,394	134,995
Government	0	670	10,641	11,311
Total New Jobs	107,383	17,704	57,533	182,620

*Model: CA Statewide-98.iap; Numbers of new full- and part-time jobs.



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Method 2: \$5.40 billion Increase in annual expenditures on Child Day Care				
Impact on CA Statewide Employment				
Industry Sector	Direct*	Indirect*	Induced*	Total*
Agriculture	0	480	728	1,208
Mining	0	20	62	82
Construction	0	1,381	4,862	6,243
Manufacturing	0	1,766	3,816	5,584
TGPU	0	1,174	1,740	2,914
Trade	0	2,127	16,686	18,813
FIRE	0	3,181	3,698	6,879
Services	123,377	9,442	22,282	155,101
Government	0	770	12,226	12,996
Total New Jobs	123,377	20,341	66,102	209,819

*Model: CA Statewide-98.iap; Numbers of new full- and part-time jobs.

