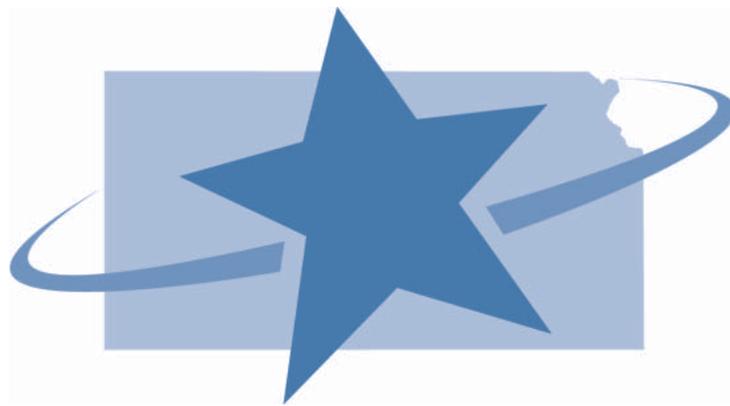


# **Investing in the Child Care Industry**



## **An Economic Development Strategy for Kansas**

**Mid-America Regional Council  
April 2003**

## Acknowledgements

This study was commissioned by Butler County Community College, the home of the Early Childhood Associate Apprenticeship Program.

***Principal Authors:***

Louise Stoney, Stoney Associates

Mildred Warner, Ph.D., Cornell University, with assistance from David Kay, James Pratt and Thor Snilsberg

Adrienne E. Woolley, Mid-America Regional Council

Abby Thorman, Ph.D., Mid-America Regional Council

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Kansas is a pilot state in the broader, federally funded research project "Linking Child Care and Economic Development" conducted by Cornell University and supported by the Department of Health and Human Services, Administration for Children and Families, Child Care Bureau.

NOTE: "Child care" is used throughout this report as a synonym for early education, early childhood development, school readiness, early literacy, nursery school, day care, preschool and other descriptors for the care and development of very young children. Child care is used for ease of recognition by individuals not employed in the industry.

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## Direct Economic Impacts of the Child Care Industry in Kansas

**Child care in Kansas is an industry...**

More than 8,645 small businesses (family child care homes, for-profit centers and non-profit centers)

**that creates jobs...**

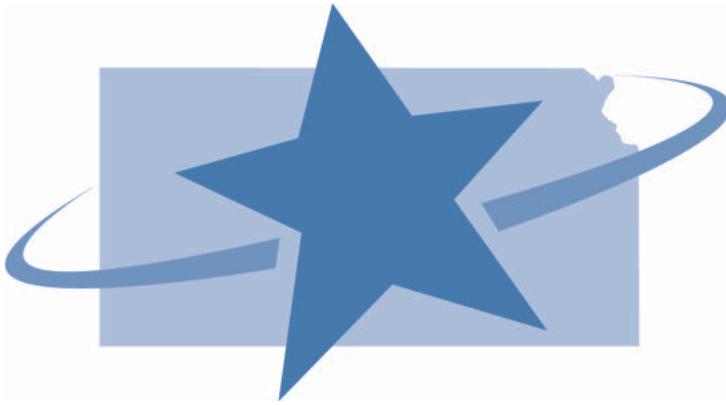
Directly employing more than 14,370 people

**supports working families...**

Serving more than 100,000 children and assisting more than 67,440 working parents

**and adds to the Kansas economy.**

Generating gross receipts of more than \$500 million per year



# I. The Kansas Child Care Industry: A Profile

The Kansas child care industry is substantial in size and is made up of many small, community- and home-based businesses. It includes for-profit and non-profit establishments such as child care centers, family child care providers, school-age child care programs, Head Start and preschools. There are also a large number of self-employed, informal child care providers who are not registered or licensed and who are very difficult to count. Though many federal and state agencies collect economic data on the child care sector, none captures all of the activity. This report uses multiple data sources<sup>1</sup> to create a profile of the industry as a whole.

## Home-Based Businesses Dominate the Industry

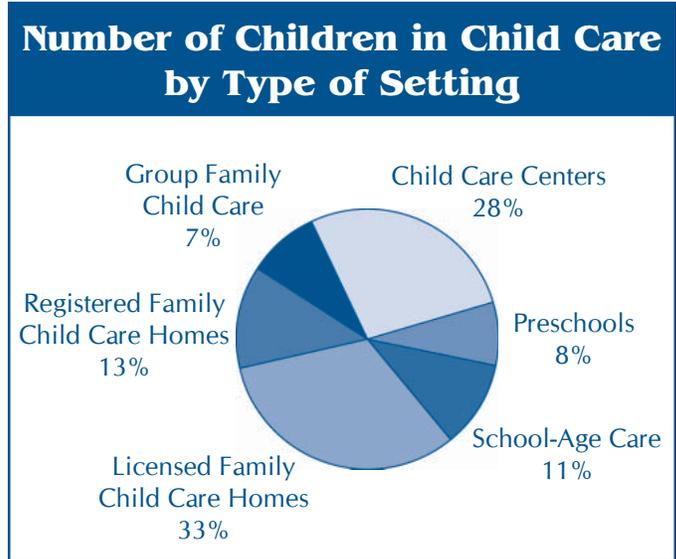
The Kansas child care industry includes **8,645 regulated establishments**. The pie chart to the right shows the distribution of these establishments by setting.

**Most Kansas child care establishments are home-based businesses.** These establishments fall into three categories:

- ★ **Home-based** and **licensed** to care for up to 10 children in the provider’s home.
- ★ **Home-based** and **registered** to care for up to six children in the provider’s home.
- ★ **Group home-based** and **licensed** to care for up to 12 children in the provider’s home, with at least two care providers.

An additional 3,188 providers have been approved by the Kansas Department of Social and Rehabilitation Services (SRS) to provide paid child care in their own homes.<sup>2</sup>

**Center-based care** includes child care centers, Head Start programs, part-day preschools and before-and-after-school programs. While there are far fewer



### What Is the Child Care Industry?

For purposes of this report, the child care industry includes **regulated** full- and part-day child care programs. These programs may be located in a variety of settings, such as community- or faith-based organizations, schools and private homes. Head Start and after-school programs are also considered part of the industry.

Although the child care industry also includes **informal** child care arrangements, such as paid care provided by relatives or in-home providers like nannies, these are not included in this analysis because it is not possible to obtain comprehensive data on their scope.

Information on informal providers who receive public funding is included in some sections of this report, but was **not** used to calculate the economic impact of the industry. Thus, the economic impact described in this report is a **conservative estimate**.

center-based child care establishments in Kansas (1,338 or 15 percent of all establishments), these programs collectively serve almost as many children as home-based programs. The average center is licensed to care for 57 children.<sup>3</sup>

### Over 100,000 children are cared for in regulated child care settings.

Kansas' regulated child care centers and homes have the capacity to serve 130,000 children.<sup>4</sup> However, due to vacancy rates and turnover, not all of these spaces are filled at any given time. Data analysis is further complicated by the fact that one regulated slot may be filled by several children who each attend part-time. This study estimated the numbers conservatively by using licensed full-time slots and an estimated vacancy rate.

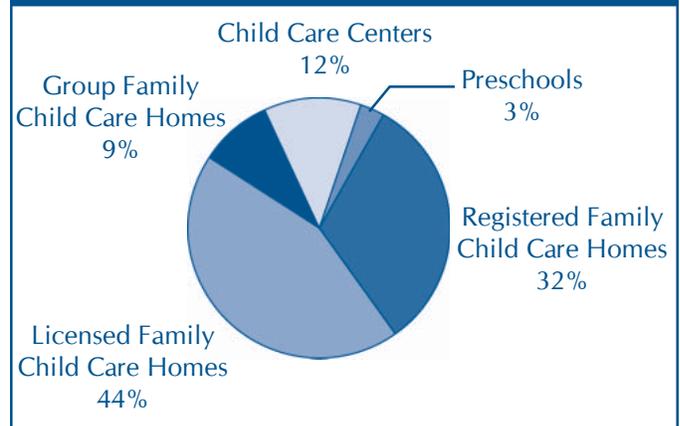
Using data collected by the Kansas Association of Child Care Resource and Referral Agencies (KACCRRA) and the Kansas Department of Social and Rehabilitation Services (SRS), it was determined that 100,000 children, on average, are enrolled in regulated child care centers and homes.

In 2002, home-based establishments cared for about 52 percent of all children who attend regulated child care in Kansas, and center-based programs cared for the remaining 48 percent.<sup>5</sup>

### At least 67,400 Kansas parents depend on the child care industry so they can work.

It is hard to estimate the number of working parents who have children in paid child care in Kansas. Many parents work split shifts or use relatives to meet their child care needs. According to the Kansas Department of Revenue, 67,440 Kansas parents claimed the Dependent Care Tax Credit on their tax returns for 2001.<sup>6</sup>

### Types of Regulated Child Care Establishments in Kansas\*



\* These percentages count the number of child care setting sites equally. However they do not proportionately represent the number of children they serve and the number of slots available in the state.



*Unlike many low-wage jobs, child care is a field which not only offers employees the opportunity to obtain the training and education they need to advance into higher-paying positions, but also continually seeks to improve professional qualifications, wages and benefits.*

Although employment in child care is **high**, wages are **low**. On average, a full-time teacher in a Kansas preschool setting earns only \$15,430 a year.<sup>7</sup> However, Kansas has engaged in several professional development initiatives aimed at improving the training, education, qualifications and wages of child care employees. A career ladder has been established for the industry, and efforts are underway to improve access to college education for child care employees.<sup>8</sup>

Additionally, a small percentage of Kansas' tobacco settlement dollars have been used for wage enhancement in child care programs. These enhancements help programs attract and retain qualified employees without raising parent fees. Thus, while the pay is low, child care employment should not be viewed as a "dead-end" job. It is a career. And unlike many low-wage jobs, child care is a field which not only offers employees the opportunity to obtain the training and education they need to advance into higher-paying positions, but also continually seeks to improve professional qualifications, wages and benefits.

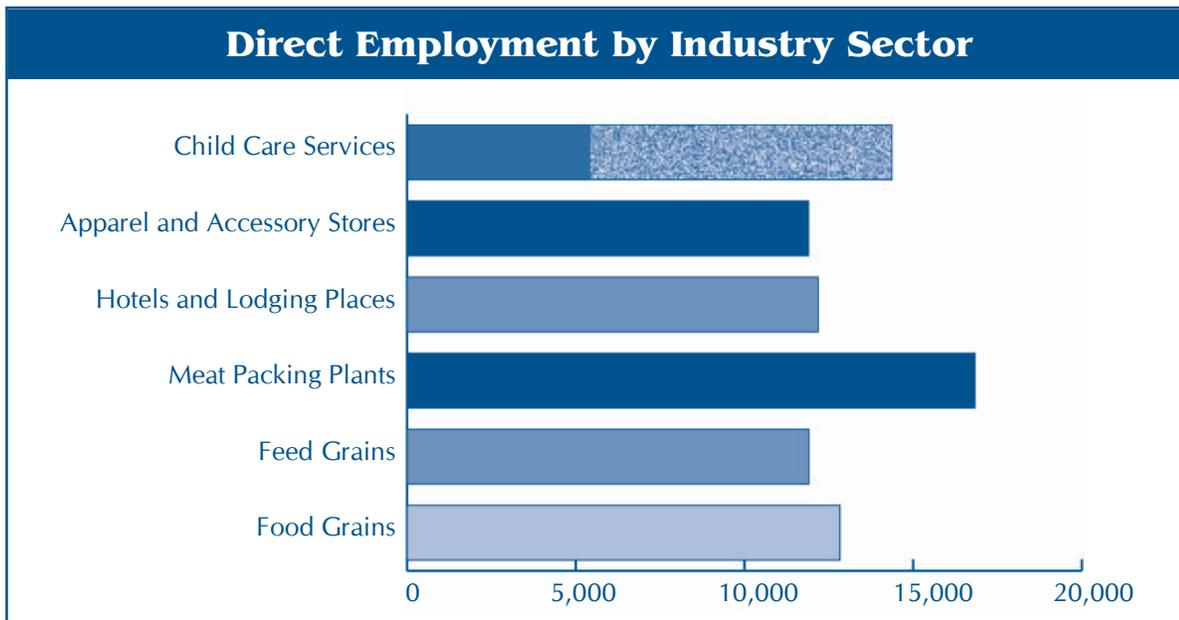
## Direct Employment Is Significant

Over **14,370 individuals** work in the regulated **child care industry**. This is similar to the number employed in Kansas' hotel and lodging industry, apparel stores, and important Kansas agricultural industries like feed grains, food grains and meat packing.<sup>9</sup> If data were available to count the individuals that are employed but *not regulated* (such as nannies, paid friends and relatives) industry employment numbers would be even larger.

## ★ Industry Growth ★

The U.S. Department of Labor includes child care in its list of fastest growing occupations, and projects that employment in this industry is likely to grow by 26 percent between 1998 and 2008.<sup>10</sup> Kansas Action for Children has monitored the availability of child care over time, and indicates that growth in this industry spiked significantly in the mid-1990s but has declined slightly in the past year.<sup>11</sup>

### Direct Employment by Industry Sector



Source: IMPLAN data based on ES202 data for 2000. Child care expansion based on Kansas Department of Health and Environment Estimate 2002.

## Child Care Is a Half-Billion Dollar Industry

In 2001, Kansas families collectively spent over **\$427.5 million dollars** to purchase child care.<sup>12</sup>

When government funding for child care is added to family expenditures, **gross receipts of the child care industry total more than \$517 million.**<sup>13</sup>

The table on the following page provides detailed information on how total gross receipts were calculated. Because child care is a complex industry composed of both public and private sectors, data from KACCRRRA was used to estimate weekly fees by type of care and age of child.<sup>14</sup>

Public funding for Early Head Start and Head Start, as well as direct public investments for quality improvements to child care through Smart Start

grants, SRS Early Learning quality grants, and the Child and Adult Care Food Program (CACFP) was also added to parent fees. Together, these funds comprise the gross receipts of the Kansas child care industry.

The child care industry is overwhelmingly funded by private parent contributions. However, public support for the industry is significant. Public dollars:

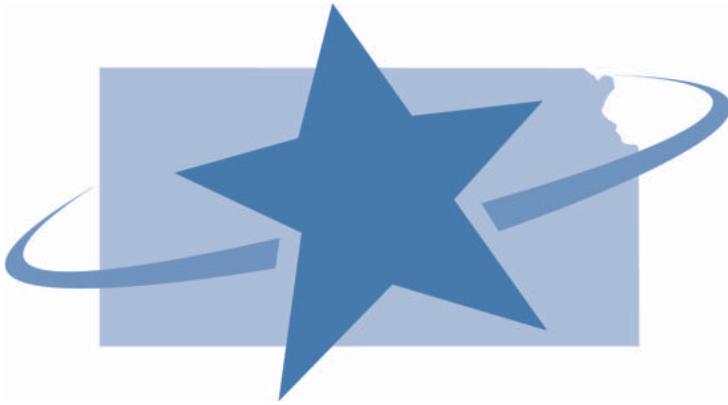
- ★ help parents afford higher quality care,
- ★ improve the quality of child care, and
- ★ provide an economic stimulus to the Kansas economy.

## 2002 Gross Receipts of the Kansas Child Care Industry

Private Sector	Providers <sup>15</sup>	Children Served <sup>16</sup>	Weekly Rate <sup>17</sup>	Weekly Receipts <sup>18</sup>	Yearly Total <sup>19</sup>
<b>Center Care</b>	1,067				
Center Infant (0-11 months)		7,099	\$134	\$954,734	
Center Toddler (12-17 months)		2,748	\$114	\$313,193	
Center Toddler (18-29 months)		3,734	\$106	\$395,283	
Center Preschooler (30-59 months)		13,952	\$95	\$1,319,495	
<b>Home-based Child Care</b>					
<b>Licensed Homes</b>	3,786				
Infant (0-17 months)		8,499	\$86	\$731,411	
Preschool (18-59 months)		14,168	\$87	\$1,235,193	
School age (59 months and up)		9,075	\$79	\$712,699	
<b>Registered Homes</b>	2,769				
Infant (0-17 months)		4,431	\$87	\$383,985	
Preschool (18-59 months)		5,539	\$80	\$442,024	
School age (59 months and up)		3,256	\$73	\$238,296	
<b>Group Homes</b>	752				
Infant (0-17 months)		2,424	\$98	\$237,141	
Preschool (18-59 months)		2,956	\$86	\$254,712	
School age (59 months and up)		1,603	\$77	\$123,622	
<b>Part-Time Care and Education</b>					
Licensed as Preschool	271	8,313	\$33	\$272,494	
Licensed as School-Age Care		11,237	\$54	\$606,967	
<b>Total Private</b>	<b>8,645</b>	<b>99,035**</b>		<b>\$8,221,250</b>	<b>\$427,505,020</b>
		<b>Children</b>		<b>Public Funding</b>	
<b>Government Funding*</b>					
Early Head Start — Kansas		1,183		\$7,973,754	
Early Head Start — Federal				\$6,983,741	
Head Start — Federal		6,801		\$43,517,705	
Smart Start (Tobacco Settlement)				\$3,000,000	
SRS Early Learning Quality Grants				\$4,276,403	
Child and Adult Care Food Program				\$23,882,436	
<b>Total Government</b>		<b>7,984</b>		<b>\$89,634,039</b>	<b>\$89,634,039</b>
<b>Total</b>		<b>107,019</b>			<b>\$517,139,059</b>

\* Only government funds that increase gross receipts of the child care industry were included. Funds for licensing and administration were excluded.

\*\* This number may include a portion of the children in the Government Funding section. Data does not allow us to separate the children served by government program funds placed in private care settings.



## II. Economic Linkages: The “Ripple Effect” of Child Care

Child care is both an *industry* unto itself, and an *infrastructure* in the Kansas economy which enables other industries to thrive.

While the employment and gross receipts of the child care industry make a significant direct contribution to the Kansas economy, the value of the economic linkages generated by the industry is even larger. This is because child care businesses and employees, and the working parents they serve, **spend money in the Kansas economy by purchasing goods and services that stimulate economic activity in other industries.** Economic impact analysis makes it possible to estimate the dollar value of this additional activity.

The first section of this report focused on the *direct effects* of the child care industry — its income and number of employees. This section will quantify how strongly the purchases and spending of the child care industry affect other sectors of the Kansas economy. A third component, the impact of parents’ earnings, will also be analyzed. While not traditionally included in economic impact studies, the impact of parents’ earnings made possible in part by the child care industry is an important part of the industry’s economic impact on Kansas.

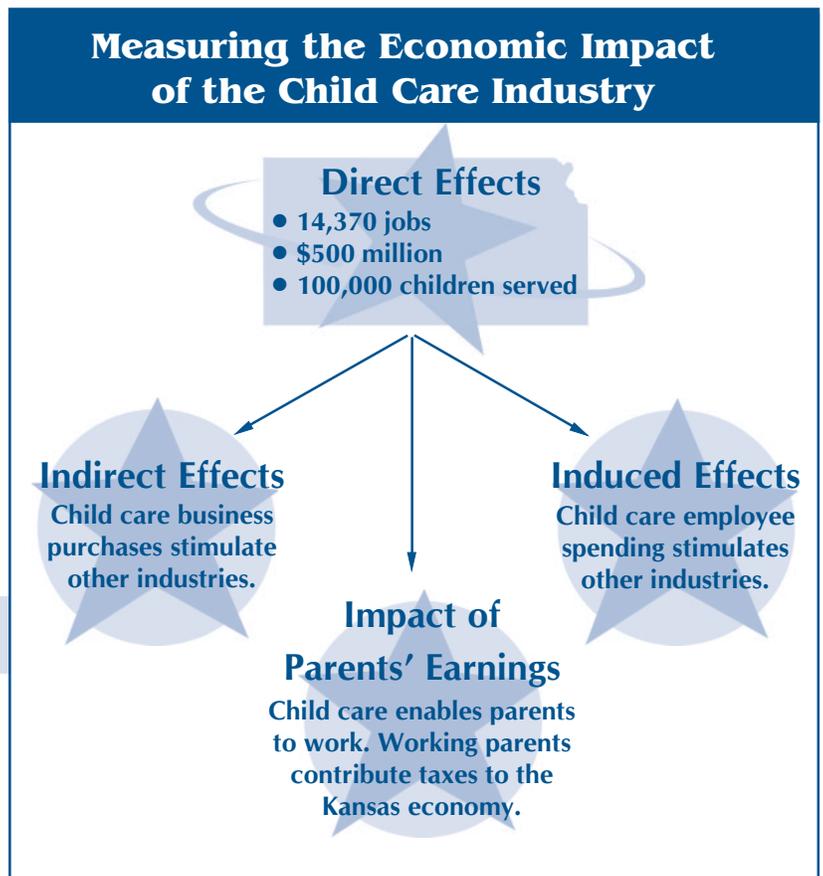
### ▶ Child Care Spending Ripples Through the Economy

The standard tool that economic development professionals use to estimate the economic impact of an industry, called *input-output analysis*, calculates the ripple effects (which are called multipliers) that

result from the spending by that industry. Input-output analysis uses data on the direct employment and output of an industry to calculate the multiplier effects. These are based on measurements of the linkage of the child care industry to other industries in the local or regional economy.

In addition to the direct effects of child care spending, multiplier effects include two components:

1. **Indirect effects** measure how much economic activity is stimulated by child care businesses when they purchase goods and services from



## Child Care Multipliers

	Direct Effects	Indirect Effects	Induced Effects	Type I Multipliers	Type II Multipliers
<b>Output</b>	<b>1.00</b>	<b>0.56</b>	<b>0.42</b>	<b>1.56</b>	<b>1.98</b>
<b>Employment</b>	<b>1.00</b>	<b>0.32</b>	<b>0.23</b>	<b>1.32</b>	<b>1.55</b>

Source: IMPLAN analysis conducted by Cornell University using IMPLAN 2000 data. Type I multipliers are (direct + indirect)/direct, Type II multipliers are (direct + indirect + induced)/direct.

local suppliers; and how much additional economic activity is stimulated by these local suppliers when they, in turn, purchase goods and services from other local businesses.

2. **Induced effects** measure how much economic activity is generated by child care workers when they use their wages to purchase goods and services from local businesses; and then how much economic activity is further generated by the employees of these local businesses as they purchase additional goods and services and any household spending stimulated in all other industries.

### Child Care Multipliers

There are several types of multipliers that can be computed in an input-output model.

Type I multipliers count both direct and indirect effects, and Type II multipliers also include induced effects generated by household spending — in this case, child care employees spending their wages and households purchasing child care services. Both the Type I and Type II multipliers are presented here. The multipliers estimated using input/output analysis are developed under the assumption that any changes in the spending level for final outputs are initiated by new expenditures from *outside* the local economy. In the case of child care, like many service sector industries, much of the demand is generated locally by households. Type I multipliers are most appropriate for estimating the linkage effects of changes in local demand, and Type II multipliers are most appropriate for estimating the linkage effects of changes in external demand which would typically be stimulated by changes in federal funding.

An output multiplier for the child care industry is an estimate of the gross number of dollars of total sales that would be generated in the entire economy by each dollar of increased direct spending for child care services. The employment multiplier, similarly,

is an estimate of the gross number of jobs that would be generated in the entire economy for every new job stimulated directly in the child care industry because of increased spending in the child care industry. These multipliers are shown in the table above.

A detailed discussion of the multiplier effects of the child care industry is included in Appendix A.

### Impact of Parents' Earnings

Like other infrastructure sectors, child care makes contributions to the economy **beyond** its easily traceable economic linkages:

- ★ Child care enables parents to go to work.
- ★ Child care helps employers attract and retain employees.
- ★ Child care increases productivity and reduces absenteeism and turnover of employees who are parents.
- ★ Child care promotes school readiness of children. Greater school success reduces the need for remedial and special education, reducing the cost of education.
- ★ Before- and after-school care helps to reduce crime.

Input-output analysis cannot be used to estimate these infrastructure effects.

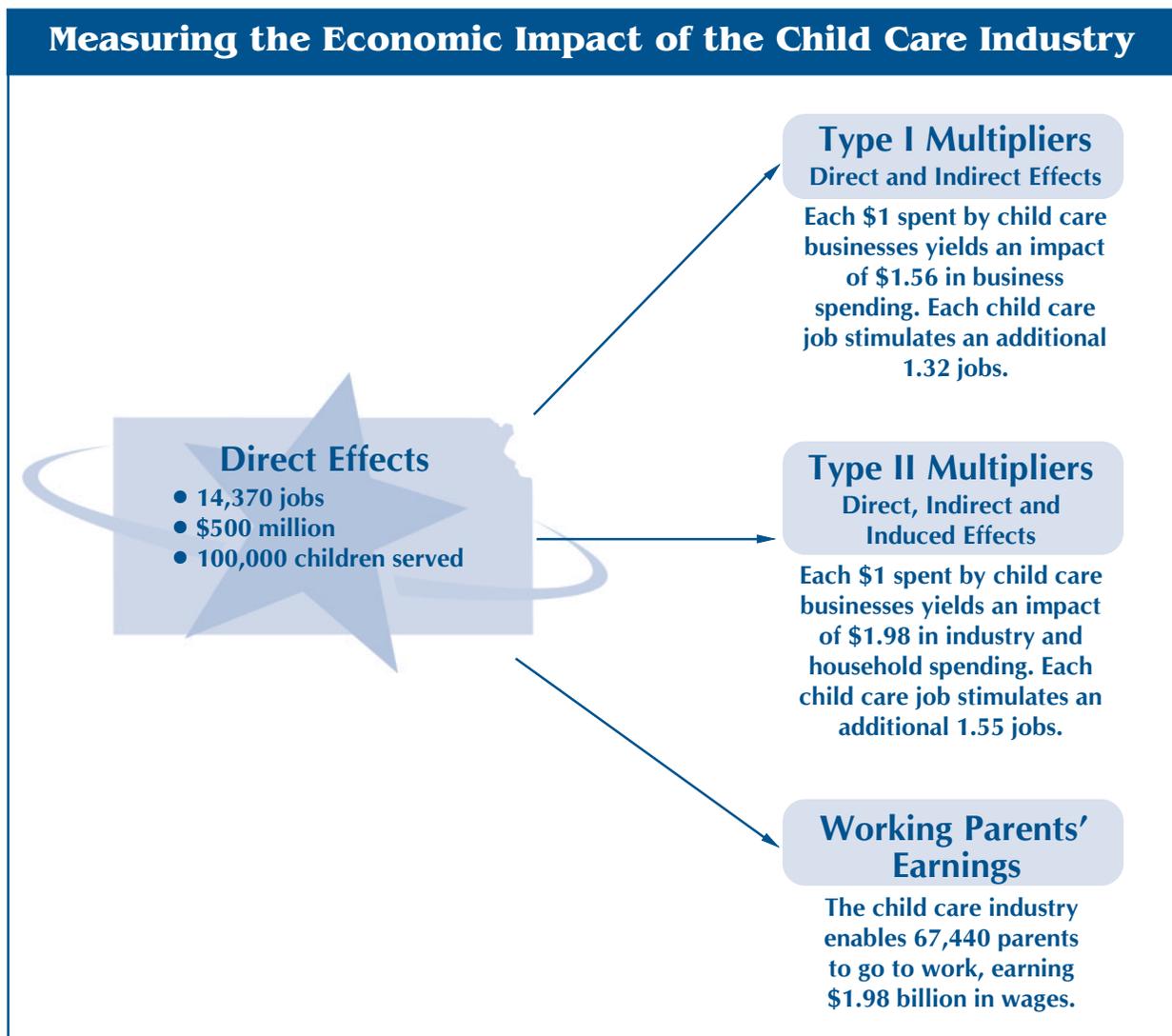
$$\begin{aligned}
 & 67,440 \text{ Working Parents} \\
 & \times \$29,356 \text{ Kansas Median} \\
 & \quad \text{Annual Income} \\
 \hline
 & = \$1.98 \text{ billion}
 \end{aligned}$$

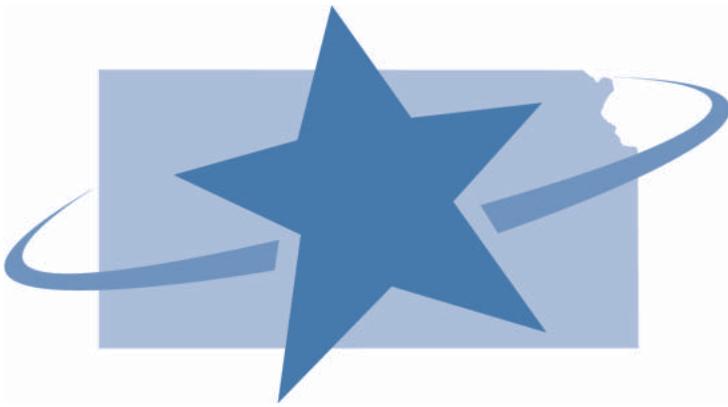
However, it is possible to estimate the number of working parents who rely on paid child care and the collective wage contribution to the Kansas economy. Collective wages were estimated by multiplying the number of parents who claimed child care expenses on their 2001 tax returns by the Kansas median income.<sup>20</sup> Using this approach, the estimated collective earnings of working parents who rely on paid child care is almost **\$1.98 billion dollars a year**, a substantial contribution to the Kansas economy.

The combined direct effects and economic linkages made possible by the Kansas child care industry are summarized as follows.

Type I: Each dollar spent by a child care business stimulates a total gross impact of \$1.56 in business spending in the broader Kansas economy. Each job stimulates a total gross impact of 1.32 jobs through linkage to other industry spending in the broader Kansas economy.

Type II: Each dollar spent by a child care business employee stimulates a total gross impact of \$1.98 in industry *and household* spending throughout the rest of Kansas economy. Each job stimulates a total gross impact of 1.55 jobs through the linkage to other industry *and household* spending.





## III. The Economic Impact of Public Investments in Child Care

Government has a long history of support for higher education that includes both funding for institutions of higher learning and financial aid for families.

Government appropriations for higher education are typically viewed as economic development: investments in jobs, families and young minds. Government makes similar investments in housing and transportation, and again, these investments are viewed as economic development tools because they not only help citizens, but also create jobs and generate economic returns for local communities and Kansas as a whole.

**Publicly-funded child care is also economic development.** These funds contribute to the economy in two important ways:

1. Kansas tax dollars spent on child care draw a large amount of new federal dollars, funding that ripples through the economy in much the same way as the dollars generated by attracting new businesses.

Kansas has recently attracted such companies as a new Target Stores distribution center in Topeka and the UPS (United Parcel Service) regional headquarters in Leawood. Large economic growth has occurred in Wyandotte County due to the new Kansas Speedway, the new Cabela's store, and the Nebraska Furniture Mart coming in the fall of 2003. Property values have risen sharply and strip malls that were once nearly vacant are now full.

2. Child care subsidies make it possible for thousands of low-income parents to join the labor force, which returns dollars to Kansas through taxes on family earnings and employment.

### **The Kansas Child Care Budget**

Kansas and the federal government invested \$142.6 million in the Kansas child care industry in Kansas fiscal year (SFY) 2002. Over \$35 million was Kansas-controlled funding, which helped to leverage over \$107 million in additional federal funds.<sup>21</sup>

These federal and Kansas child care funds were used to help Kansas families in two important ways:

- ✦ By providing income-based child care subsidies to low-income families.
- ✦ By providing overall support (to strengthen programs and improve quality) in the child care industry itself.

### **Industry Supports**

Just as Kansas makes investments in colleges and universities so that all residents have the opportunity to attend college, Kansas has begun to make investments in the child care industry so that all families have access to good, affordable child care. These quality initiatives are designed to help strengthen the child care industry and to promote child care opportunities for children without raising parent fees, which are already higher than many families can afford.

In SFY2002, nearly \$4.3 million was made available for Early Learning Quality Grants for quality improvement, and an additional \$3 million was allocated to the Smart Start Kansas Initiative. These funds supported a range of efforts, including: employee professional development (training and education in child development); wage enhancements (linked to professional qualifications, so that attaining higher levels of education pays off); special

equipment and supplies; accreditation; facility improvement; and others.

Due to budget constraints and the growing need to provide child care assistance to low-income families, funding for Early Learning Quality Grants has declined significantly over the past two years. In SFY2001, close to \$5 million was expended for these grants. In SFY2003 the allocation was down to \$2.9 million.

Reducing Early Learning Quality Grant funds not only has an economic impact on the child care industry, but also places program quality in jeopardy. High-quality early childhood programs need funds to augment parent fees in order to attract and retain the qualified staff that is essential to promoting early learning and school readiness. Evaluation of Kansas child care programs by the Midwest Child Care Research Consortium demonstrated a strong link between program quality and teacher certification, training, professional affiliation, wages and benefits<sup>22</sup> — precisely the

issues targeted by the Early Learning Quality Grant program.

The child care industry is indeed a vital support for Kansas, but it cannot provide high-quality services on parent fees alone. Just like other important public services — transportation, housing, higher education, and health care — the child care industry needs outside investments from government, in partnership with the private sector, so that it can offer families affordable, reliable, quality services.

Most of Kansas’ child care funds are used to help low-income families pay child care tuition, and these expenditures have risen steadily over the past 10 years. In SFY 2002, just over \$50.8 million in Kansas and federal funds was used to provide portable child care subsidies to 16,151 low-income children each month. Additionally, almost \$14 million was allocated for Early Head Start and \$43.5 million for Head Start.

The following section of the report describes the economic impact of these public funds. Input-output

<b>Summary of Kansas Child Care Funding SFY2002*</b>			
	<b>Kansas Funds**</b>	<b>Federal Funds***</b>	<b>Total</b>
<b>Licensing</b>		<b>\$2,197,856</b>	<b>\$2,197,856</b>
<b>Early Learning Quality Grants</b>	<b>\$210,292</b>	<b>\$4,066,111</b>	<b>\$4,276,403</b>
<b>Kansas Smart Start</b>	<b>\$3,000,000</b>		<b>\$3,000,000</b>
<b>Child Care Subsidies</b>	<b>\$32,190,055</b>	<b>\$18,625,544</b>	<b>\$50,815,599</b>
<b>Kansas Early Head Start</b>		<b>\$7,973,754</b>	<b>\$7,973,754</b>
<b>Federal Early Head Start</b>		<b>\$6,983,741</b>	<b>\$6,983,741</b>
<b>Head Start</b>		<b>\$43,517,705</b>	<b>\$43,517,705</b>
<b>Child and Adult Care Food Program</b>		<b>\$23,882,436</b>	<b>\$23,882,436</b>
<b>Total</b>	<b>\$35,400,347</b>	<b>\$107,247,147</b>	<b>\$142,647,494</b>

\* See Appendix C for a more detailed analysis.

\*\* Kansas funds include general revenue, tobacco funds, Temporary Assistance for Needy Families (TANF) transfers and Social Services Block Grants (SSBG).

\*\*\* Federal funds include Child Care Development Funds, Food Stamp Employment and Training, Head Start, Early Head Start, and the Child and Adult Care Food Program.

analysis is used to show how investments in child care financial aid go far beyond the working families that receive assistance and make a significant contribution to the Kansas economy as a whole.

**Government Child Care Investments Generate an Economic Return**

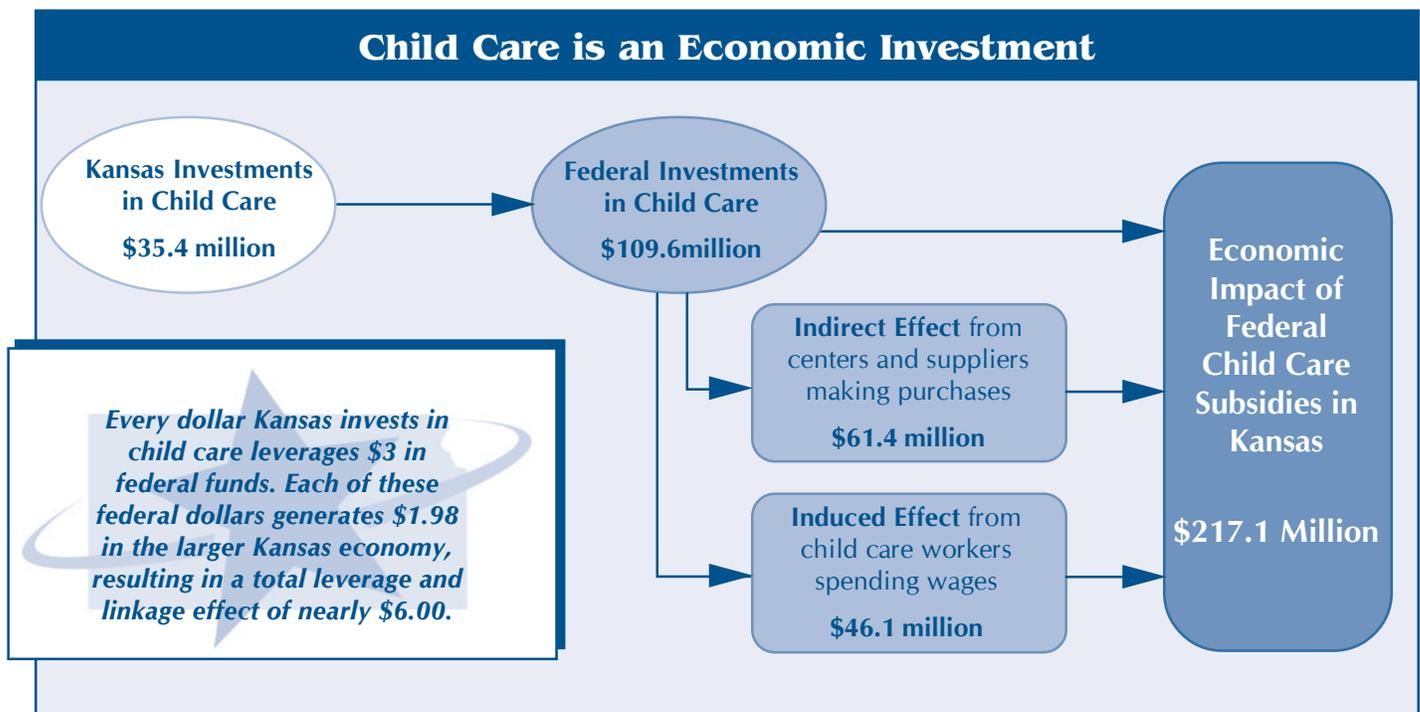
Economic growth is stimulated in large measure by changes in external demand. Although most child care demand is generated by parents who live within Kansas' borders, federal government investments in child care can be treated as external demand and represent net new investment in the sector. Input-output analysis is most useful in estimating the impacts of a "shock" to the system. The multiplier analysis was used to show how federal investment in the child care industry has helped to stimulate the child care industry and broader Kansas economy. As the child care industry grows it also causes increases in employment and spending through its indirect and induced effects on other industry employment and spending. This is a result of its linkage in the broader Kansas economy.

As shown below, in SFY2002, Kansas allocated a total of \$35.4 million to the child care industry and leveraged an additional \$109.6 million in federal investment for child care. (Thus, **Kansas leveraged \$3.10 in federal funds for every Kansas dollar invested in child care**). These federal funds stimulated an additional \$61.4 million of economic

activity from child care providers' purchases (indirect effects) and \$46.1 million from the ripple effects of child care staff spending their wages. **This reflects a positive, short-term impact of \$1.98 in the broader Kansas economy for each federal dollar.** These two economic impacts combined result in a net impact of nearly \$6.00 for every \$1 Kansas spends on child care.

It is important to explain that the term "leverage" is used broadly, to refer to various ways that Kansas' child care investments draw new money into the state.<sup>23</sup> First, Kansas leverages federal funds by allocating the matching and maintenance of effort funds needed to draw down all of the Child Care Development Funds (CCDF) that are available to the state. At present, Kansas is struggling to secure the matching funds necessary to draw down its full estimated federal CCDF allocation for SFY 2002.<sup>24</sup> Failure to secure the state match will limit CCDF revenues in Kansas.

Second, Kansas leverages federal funds through investments in the child care sector as a whole. Dollars spent on the infrastructure necessary to regulate, recruit, monitor and strengthen early childhood education programs (such as licensing and child care resource and referral services) are key to drawing in federal funds. Without licensing, or some sort of state approval system, child care programs could not access federal Child and Adult Care Food Program (CACFP) dollars. And without recruiting providers, many wouldn't know about the



Source: Based on SRS data for 2001

## Child Care Subsidies More Than Pay for Themselves



*Child care subsidies not only pay for themselves in economic returns to Kansas, but they also make work pay for low-income working parents. Parents who join the labor force with the help of child care subsidies earn \$110.9 million. This is in addition to the impact that child care subsidies have on the economy as a whole — another \$87 million of direct and linkage effects.*

program or sign up. CACFP is an open-ended entitlement program that is wholly based on the providers applying for it and being approved by the state. Additionally, Kansas' commitment of Kansas-controlled funds to Early Head Start, and its willingness to make child care subsidy funds available to Head Start programs, has helped make these proposals more attractive to the federal administration, drawing more federal funds into Kansas. Maintaining these investments is key to keeping federal child care funds flowing into Kansas.

### Child Care Subsidies More Than Pay for Themselves

Of the government investments described above, \$50.8 million are spent on portable subsidies to help low-income parents pay for child care.<sup>25</sup> These child care subsidies — which make it possible for low-income working parents to accept jobs, maintain employment and become more financially stable citizens — have been available to all Kansas families earning less than 185 percent of poverty<sup>26</sup> (\$27,787 for a family of three). Many Kansas families fall into this group.

A multiplier analysis conducted on subsidy dollars alone shows that these funds stimulate an estimated \$50 million in the broader Kansas economy due to the multiplier effects of the child care industry. The subsidy program generates a total economic impact of \$87 million.

The wages earned by parents who receive child care subsidies also make an important contribution to the Kansas economy. The Department of Social and Rehabilitation Services estimates that it served 9,006 working parents in SFY2002. These parents have a range of incomes, but for estimation purposes, it was assumed that most work for wages typical of those in the retail sector (\$15,840).<sup>27</sup> This wage was adjusted to reflect a 31-hour work week (which is, on average, how many hours the parents who receive child care subsidies work each week).

In short, **child care subsidies not only pay for themselves in economic returns to Kansas, but they also make work pay for low-income working parents.** Parents who join the labor force with the help of child care subsidies earn \$110.9 million. This is in addition to the impact that child care subsidies have on the economy as a whole — another \$87 million of direct and linkage effects.

### Cutting Child Care Assistance Has Serious Economic Impacts

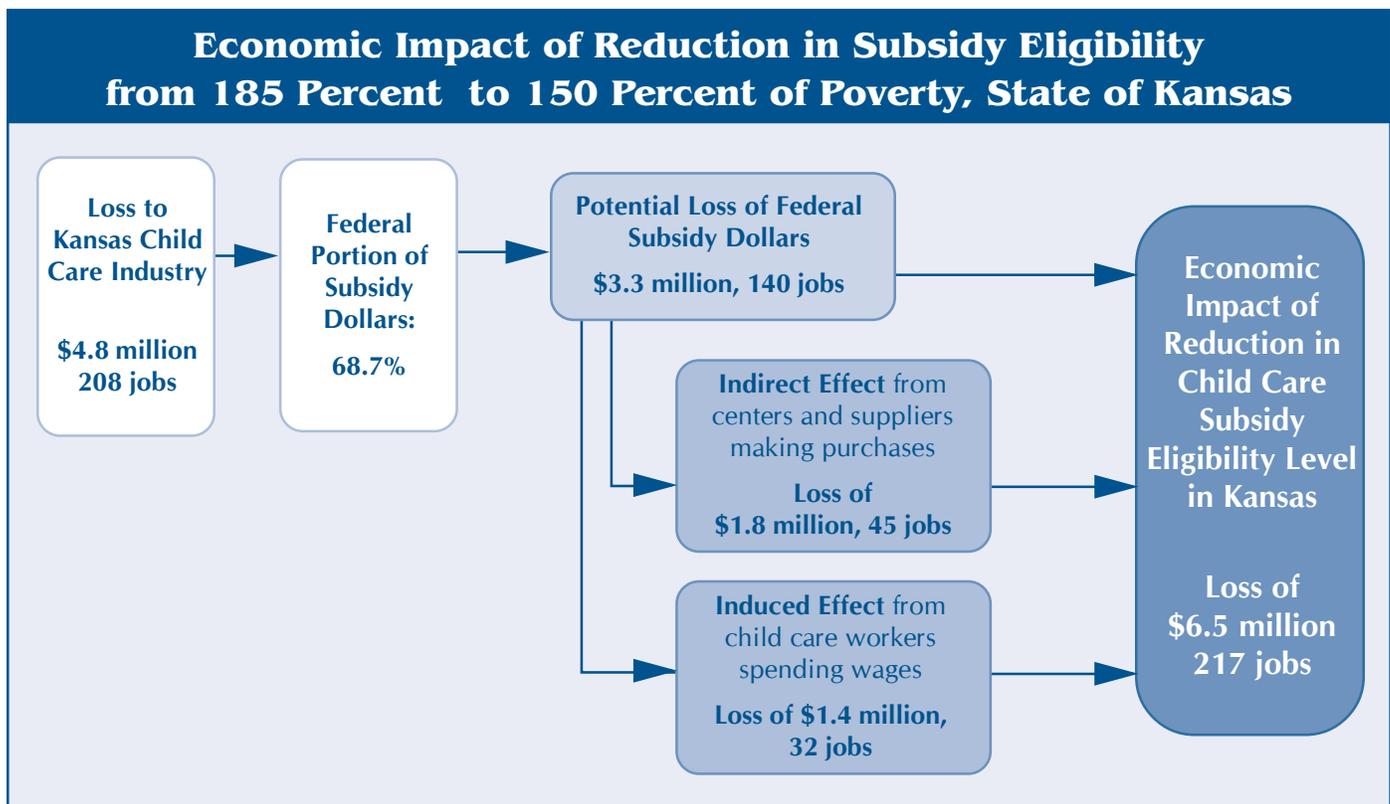
At present, Kansas is facing a serious budget deficit and has recently decided to reduce child care spending by lowering the income eligibility ceiling for child care assistance from 185 percent of poverty (\$27,787 for a family of three) to 150 percent of poverty (\$22,530 for a family of three).

With these lower eligibility levels, the Kansas Department of Social and Rehabilitation Services estimates that 1,043 working parents with 1,518 children in paid child care would lose subsidies. At an average subsidy of \$3,146 per child, this would cause a loss in income to the child care industry of \$4.8 million in direct gross receipts. As fewer children are helped, fewer federal dollars for child care subsidies are likely to flow into the state of Kansas. Because the vast majority of federal dollars originate outside the Kansas economy, using multipliers from input-output analysis to estimate the total economic impact on the state of their loss is appropriate.

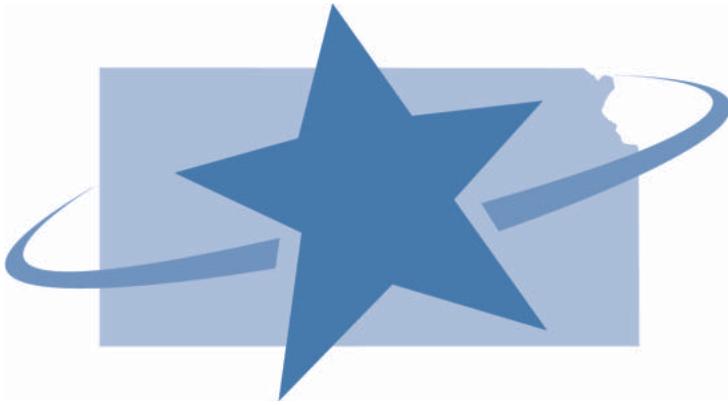
Currently, federal dollars account for more than two-thirds (68.7 percent) of the subsidy dollars expended by the state. While the exact amount of the reduction in federal spending arising from a reduction in Kansas subsidy eligibility is unknown, a rough estimate can be prepared by assuming the federal share of subsidy spending remains constant. The potential loss of federal funds to the state, then, is \$3.3 million. Using multiplier analysis, a further loss of \$3.2 million would occur in the broader Kansas economy due to the linkage effects of the child care industry, for a total impact of \$6.5 million on the state of Kansas.

It is not known exactly how many child care employees would be lost with this reduction in revenue to the sector. However, the average ratio of staff to children in the sector is 7.4 (107,019 children/14,370 workers). Using this ration, a reduction of 1,518 children in the paid child care industry would result in a direct loss of 204 child care staff (1518/7.45). Of these 204 lost child care jobs, approximately 68.7 percent of them, or 140 jobs, would be the result of reduced federal spending. Using multipliers from input-output analysis, the reduced spending caused by the loss of 140 jobs would result in another 77 jobs being lost elsewhere in the Kansas economy, for a total loss of 217 jobs in the state of Kansas. (See figure below.) Thus, not only would such a reduction present a hardship for working Kansas parents, it would stimulate a reduction in the child care supply and a reduction in output and employment in the broader Kansas economy.

Child care investments draw new federal dollars into Kansas, helping to build jobs and income. If child care funds are invested wisely, in high-quality programs that promote early learning, they will also have payoffs for years to come.



Source: Based on estimates from Kansas Department of Social and Rehabilitation Services 2002 and IMPLAN Type II Multipliers 2000.



## IV. Child Care Investment as an Economic Development Strategy

Kansas, Inc., one of Kansas' leading economic development organizations, defines economic development as "the deliberate enhancement or enrichment of the current economy,"<sup>28</sup> and stresses the importance of shifting from *quantity job* creation to *quality job* creation. Indeed, the economic development field as a whole is moving beyond a focus on jobs and industrial recruitment to recognizing the importance of focusing on quality of life: physical and social infrastructure. Some of the most successful cities and states have recognized that higher amenities (education, parks, child care) enhance their economic development prospects both in attracting and retaining industry and especially in attracting and retaining a highly skilled, creative workforce that promotes a spirit of innovation and entrepreneurship.

### Supporting Employers

Much has been written about the ways that employer-supported child care can benefit businesses (see box, right). But the key role that *publicly funded* child care plays in supporting businesses is rarely noted.

In order to stay competitive many employers, especially small businesses and those in the services and retail trade sectors, cannot pay wages that are high enough to cover the cost of purchasing child care or establishing an employer-financed child care initiative. By making public subsidies available to their employees, Kansas helps these employers recruit and retain staff. **Publicly funded child care is a strategy that supports both the business and the employee. It makes work pay on both sides.**

The impact of publicly funded child care becomes even more significant when one considers that:

### Child Care Benefits the Bottom Line

- ★ **Boosting Recruitment:** 85 percent of employers report that providing child care services *improved* employee recruitment. About one in three working parents is willing to change employers or trade salary and benefits for work/family programs that fit his/her needs.
- ★ **Reducing Turnover:** Almost two-thirds of employers found that providing child care services *reduced* turnover.
- ★ **Lowering Absenteeism:** Child care breakdowns leading to employee absences cost businesses \$3 billion annually in the United States. Fifty-four percent of employers report that child care services had a positive impact on employee absenteeism, reducing missed workdays by 20 to 30 percent.
- ★ **Increasing Productivity:** 49 percent of employers report that child care services had helped boost employee productivity.

Source: *The Child Care Partnership Project Employer Toolkit. It's Good Business to Invest in Child Care. U.S. Department of Health and Human Services. <http://nccic.org/ccpartnerships>.*

- ★ Half of all current Kansas employment is in the services (25 percent of all jobs) and trade (24 percent of all jobs) sectors;<sup>29</sup>
- ★ Kansas employment forecasts indicate that, over the next 30 years, the largest numeric job growth will be in the services sector;<sup>30</sup> and
- ★ Most families who receive publicly funded child care work in services or retail trade.<sup>31</sup>

In other words, publicly funded child care is providing a key support, not just for thousands of Kansas families but for **thousands of Kansas businesses** that need to recruit and retain employees with young children. By supporting these families, child care assistance also helps defray the cost of providing jobs and income, and therefore fuels job growth, especially in the services sector. This trend is likely to continue.

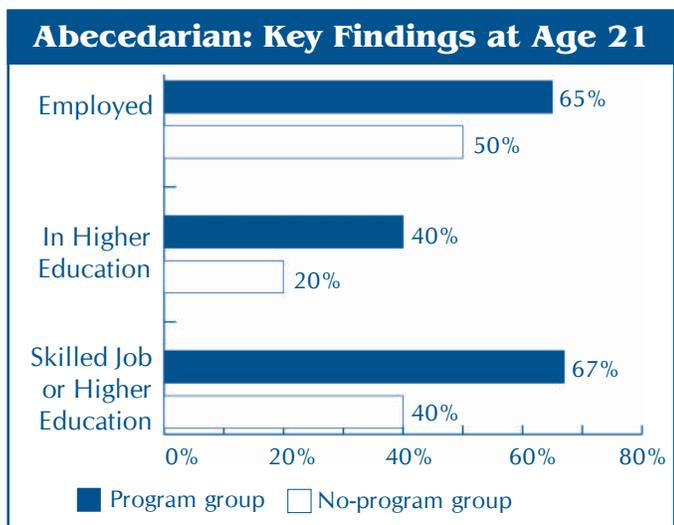
### Supporting the Knowledge Economy

Economic development experts are clear: in order to grow the economy, Kansas needs skilled, educated employees. In an update of the Kansas Strategic Plan for Economic Development, the Economic Competitiveness Group points out:

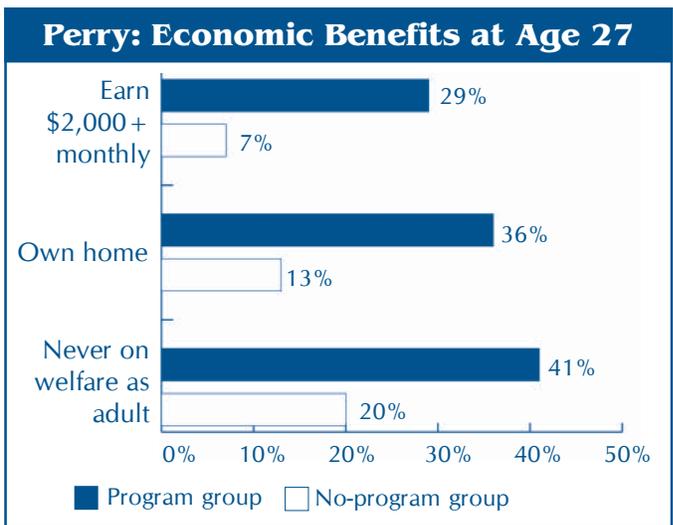
*The core strategy is no more and no less than the conversion of Kansas to a Knowledge Economy, in which the majority of the jobs and income in Kansas are derived from the application of knowledge.*<sup>32</sup>

Others concur. In 2001, Kansas, Inc. and the Kansas Information Consortium conducted a survey to gather public opinion on the most pressing economic development issues facing the state of Kansas. The number one issue identified by survey participants was education.<sup>33</sup>

Child care is where learning begins. New brain research has revealed that babies' brains are twice as active as adults, and underscored the importance that early care and education play in both intellectual, social and moral development. Long-term research reinforces these findings. More than 37 studies of model and large-scale early care



Source: National Institute for Early Education Research (www.nieer.org)

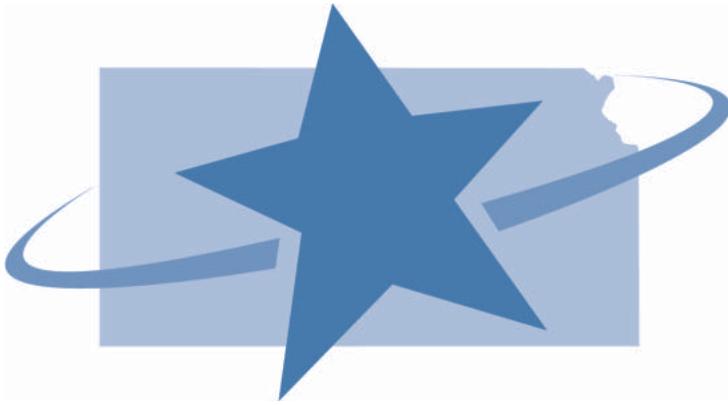


Source: National Institute for Early Education Research (www.nieer.org)

and education programs have reported significant, positive results. Quality early education boosts reading and math skills, giving children a strong start that can last a lifetime. Some of these studies, including those that looked at the Abecedarian child care program in Chapel Hill, N. C., the Chicago Child-Parent Centers in Illinois, and the High/Scope Perry Preschool in Ypsilanti, Mich., have shown that children who attend a high-quality early childhood program also have higher adult earnings and decreased reliance on social services.<sup>34</sup> High-quality early care and education can save Kansas money in the long run. Both the Chicago Child-Parent Center and Perry Preschool studies estimated a return of \$7 for every \$1 invested.<sup>35</sup>

The cognitive benefits of high-quality child care are clear. It is important to remember, however, that high-quality early care and education also have an important effect on emotional development. The basis for moral behavior (empathy, altruism and impulse control) begins to develop before age three and grows from the teaching and modeling of adult caregivers. Research has shown that children who do not have these emotional skills are more likely to have problems in later life and may even become violent as they grow into adulthood.<sup>36</sup>

Long-term studies, including the Perry Preschool and Chicago Child-Parent Center studies, have reinforced this finding: children who attend high-quality preschool programs have significantly lower rates of crime and delinquency, including juvenile arrest or arrest for a violent offense.<sup>37</sup> Indeed, the cost savings that result from avoiding delinquency and crime contribute greatly to the long-term benefits of quality child care.



## V. Recommendations: Effective Strategies for Tough Fiscal Times

Kansas is experiencing difficult budget times. Revenues are down and budget cuts are being proposed in nearly all sectors of state and local government. But, as this report demonstrates, cutting publicly funded child care would be penny-wise and pound-foolish; the economic loss is far greater than the short-term gain. Indeed, most of the dollars Kansas currently invests in child care are federal funds or state funds needed to draw down those

federal funds. Reducing current investments limits the federal funds Kansas could receive.

Clearly, Kansas needs to *increase* its investment in child care. As this report shows, these expenditures more than pay for themselves — in jobs, economic activity and in the future success of Kansas children. At a minimum, Kansas should take the following steps:



Recognize that publicly funded child care spending leverages increased federal funds for child care — approximately \$3 for every \$1 spent. These are net **new** funds to Kansas, and should be maximized.

**Kansas should appropriate the state funds needed to drawn down all federal child care dollars that are available.**



Recognize that publicly funded child care more than pays for itself, by helping families go to work and by stimulating employment and economic activity in the child care industry and in the broader economy.

**Kansas should allocate the funds needed to restore the income eligibility ceiling to its former level of 185 percent of poverty.**



Investments in the child care industry not only produce significant economic returns for Kansas, but also help to keep these vital services affordable for families.

**Kansas should allocate the funds needed to restore the Early Learning Quality Grants program to its 2001 funding level of \$4.96 million and increase the Smart Start quality initiative to at least \$4 million.**

Given the current Kansas budget deficit it may not be possible to secure significant new funds for child care. There are, however, low-cost steps that Kansas

could take to maximize all current funds and help to leverage additional monies from other public and private sources. These include the following:



**Incorporate child care into Kansas' economic development strategy.**

Look carefully at how Kansas' economic supports and benefits to small businesses could also be extended to the child care industry.



**Focus on innovative ways to leverage new public and private funds for child care.**

Kansas could establish a public/private initiative to encourage more private sector support for child care, and also allow Kansas to use these private dollars to leverage additional federal funds.



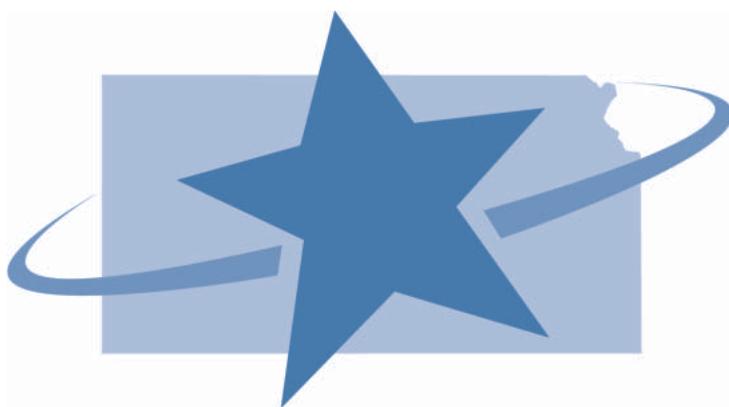
**Explore new approaches to shared employee benefits, making it possible for more employers to become involved in child care partnerships.**

In some states, government child care funds have been used as a dollar for dollar match for employers who help their low-income employees pay for child care. One approach used a private sector board, led by key business leaders, to administer a pooled fund. Others have worked at the local level, on a more case-by-case basis.



**Use Kansas' prekindergarten initiative creatively, to leverage additional local investments, and to build new partnerships among schools, Head Start, employers and community-based child care programs.**

Almost every state that has established a prekindergarten initiative in recent years has established policies that allow these funds to be used in both public and private settings. This not only helps to maximize all available resources by working in tandem with public and private early childhood programs, it also expands access for all families and helps to reduce expenditures for new facilities.



***Investing in child care makes economic sense for the state of Kansas. It is an investment that will pay off in many ways: by supporting jobs and families, fueling local economies, drawing additional federal funds into Kansas, and providing crucial child care for the next generation of workers.***

# Appendix A: Comparing Child Care Multipliers to Other Industries

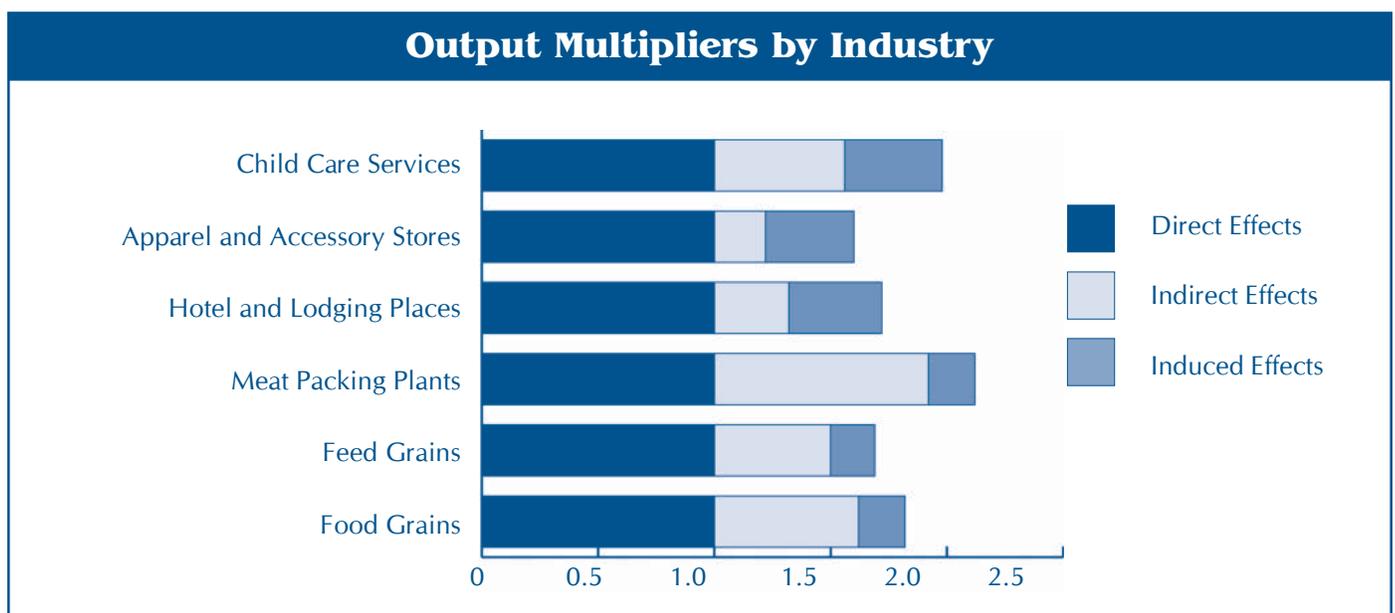
One primary use of multipliers is for comparison between industries. Economic developers examine the multiplier effects of two alternative industries to see which industry could be expected to generate greater total local economic growth. In the charts below, Kansas child care multipliers are compared with those for other important Kansas industries. Child care was compared to these same industries for direct employment (See chart on page 3).<sup>38</sup>

There is some debate among economists about whether it is appropriate to count induced effects for a sector where so much of final demand comes from the household sector itself. Thus, both the Type I and Type II multipliers are presented. The multipliers estimated using input/output analysis are developed under the assumption that any changes in the spending level for final outputs are initiated by new expenditures from *outside* the local economy.

However, in the case of child care, like many service sector industries, local households initiate much of the spending. Because these dollars already reside in the economy, the impact on overall economic growth of a given service expenditure is smaller, relative to manufacturing or agriculture, than the simple comparison of multipliers reveals.

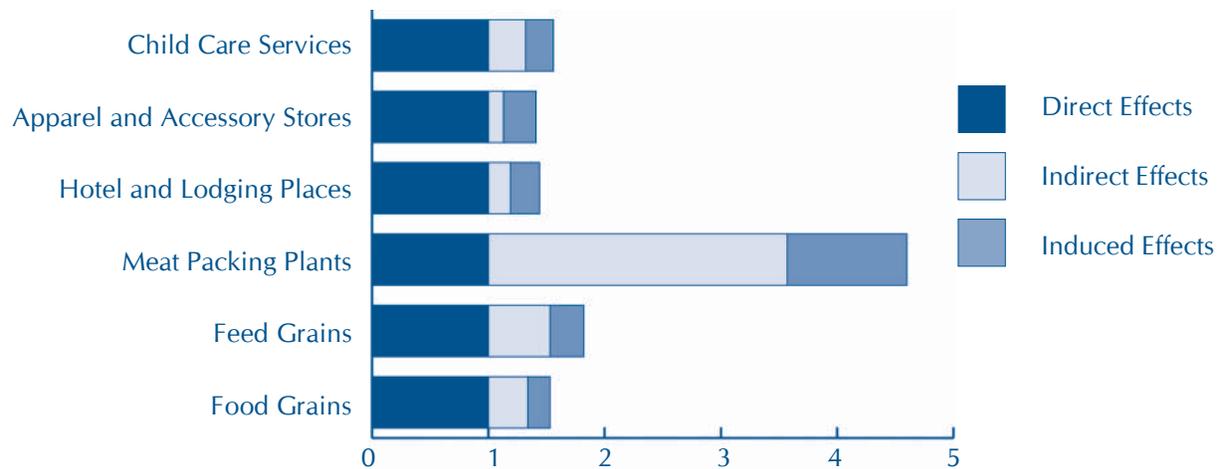
An output multiplier for the child care industry is an estimate of the gross number of dollars of total sales that would be generated throughout the entire economy by each dollar of increased direct spending for child care services. Output multipliers are measures of an industry's total backward (or purchasing) linkage. They measure the total value of output generated through the input/output economy via the input purchases of the industry in question. They quantify how much an industry relies on inputs purchased from other industries in the local economy.

Most Type II output multipliers for Kansas industries fall in the 1.50–2.00 range. Child care output multipliers are on the high end of that range, larger than those for apparel stores or lodging, similar to those for feed and food grains and smaller than those for meat packing (which are some of the highest of any industry in the Kansas economy). These output linkages for child care reflect the fact that most of the child care industry's purchases are local and these inputs are likely to be produced locally. The retail industry, by contrast, purchases many of its inputs from *outside* the local economy — which creates a leakage — meaning the dollars have less of a chance to recirculate in the Kansas economy. The



Source: IMPLAN analysis conducted by Cornell University using IMPLAN 2000 data. Type I multipliers include direct and indirect effects and Type II multipliers include direct, indirect and induced effects.

## Employment Multipliers by Industry



Source: IMPLAN analysis conducted by Cornell University using IMPLAN 2000 data. Type I multipliers include direct and indirect effects and Type II multipliers include direct, indirect and induced effects.

agriculture and meat packing industries, by contrast, purchase many of their inputs locally — a reflection of the vertical integration of Kansas’ agriculture industry and its importance as an economic driver for the state.

The employment multiplier, similarly, is an estimate of the gross number of jobs that would be generated throughout the entire economy for every new job stimulated directly in the child care industry because of final demand in the child care industry.

Employment multipliers for most sectors of the Kansas economy fall in the 1.3–2.3 range.

Child care employment multipliers again are larger than apparel and lodging but smaller than feed and food grains and meat packing. Child care is a more labor intensive industry than any of these other industries. The agricultural industries with their heavy export and value-added features generate more employment through their linkage to other sectors in the Kansas economy. Retail and lodging, by contrast, purchase more of their inputs outside the Kansas economy and thus have lower total employment multiplier effects.

### Comparisons with Other Infrastructure Sectors

Child care multipliers help government understand the different linkage effects associated with different industries. For example, policy makers might want to know if allocating funds to child care is likely to produce more or less economic impact than expenditures in other infrastructure sectors such as

job-training programs, education, water and sewer or transportation. The charts show that child care output multipliers compare well to all of these sectors.

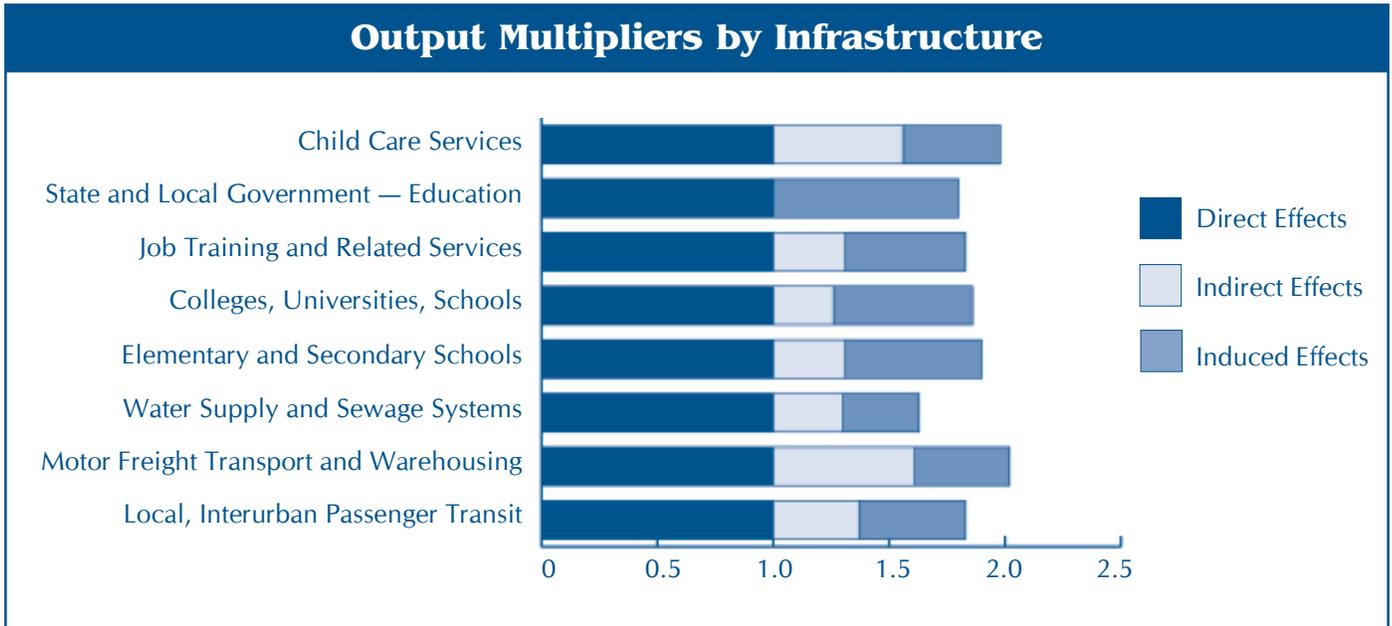
Child care employment multipliers are larger than all these infrastructure sectors, except water and sewer (this reflects the capital-intensive nature of water and sewer relative to the other infrastructure sectors which are relatively more labor intensive). Job training, education and physical infrastructure such as transportation, water and sewer are typically viewed as worthy of public tax-based expenditure both for their intrinsic value and for their economic development impact while child care is not. However, economic impact multipliers show similar impacts for the child care industry as for these other sectors.

The primary reasons for infrastructure investments, including child care, are not for their direct economic “impacts” in an input-output sense. These investments are made because of their ability to increase labor productivity, job access for parents, and future school and workforce preparedness of the next generation of adults. Such investments would be expected to change the underlying production functions on which the static input/output model is based. These infrastructure effects are not measured by an input/output analysis.

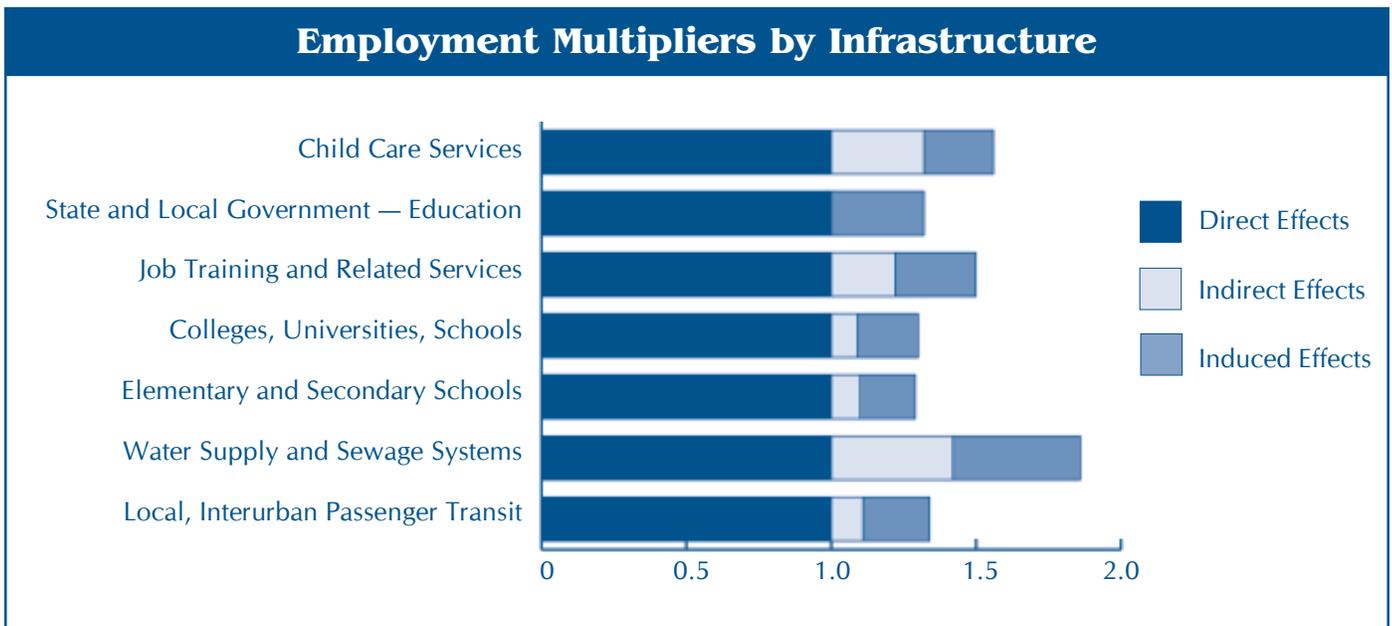
Multiplier analysis provides an important measure of the backward linkage effect of the child care

industry. However, the real economic value of child care to the Kansas economy is broader than the multiplier analysis reveals. As noted earlier in this report, child care has at least three important effects.

- Spending on child care keeps more money in local economies than spending in the retail sector (shown by the multipliers).
- Spending on child care increases the quantity and productivity of the labor supply in the short and long term.
- Kansas spending on child care induces federal spending on child care, bringing outside money into Kansas and stimulating the rest of the economy.



Source: IMPLAN analysis conducted by Cornell University using IMPLAN 2000 data. Type I multipliers include direct and indirect effects and Type II multipliers include direct, indirect and induced effects.



Source: IMPLAN analysis conducted by Cornell University using IMPLAN 2000 data. Type I multipliers include direct and indirect effects and Type II multipliers include direct, indirect and induced effects.

# Appendix B: How Does the Economic Linkage of Child Care Vary Among Localities?

## A Sub-State Analysis of Multiplier Effects

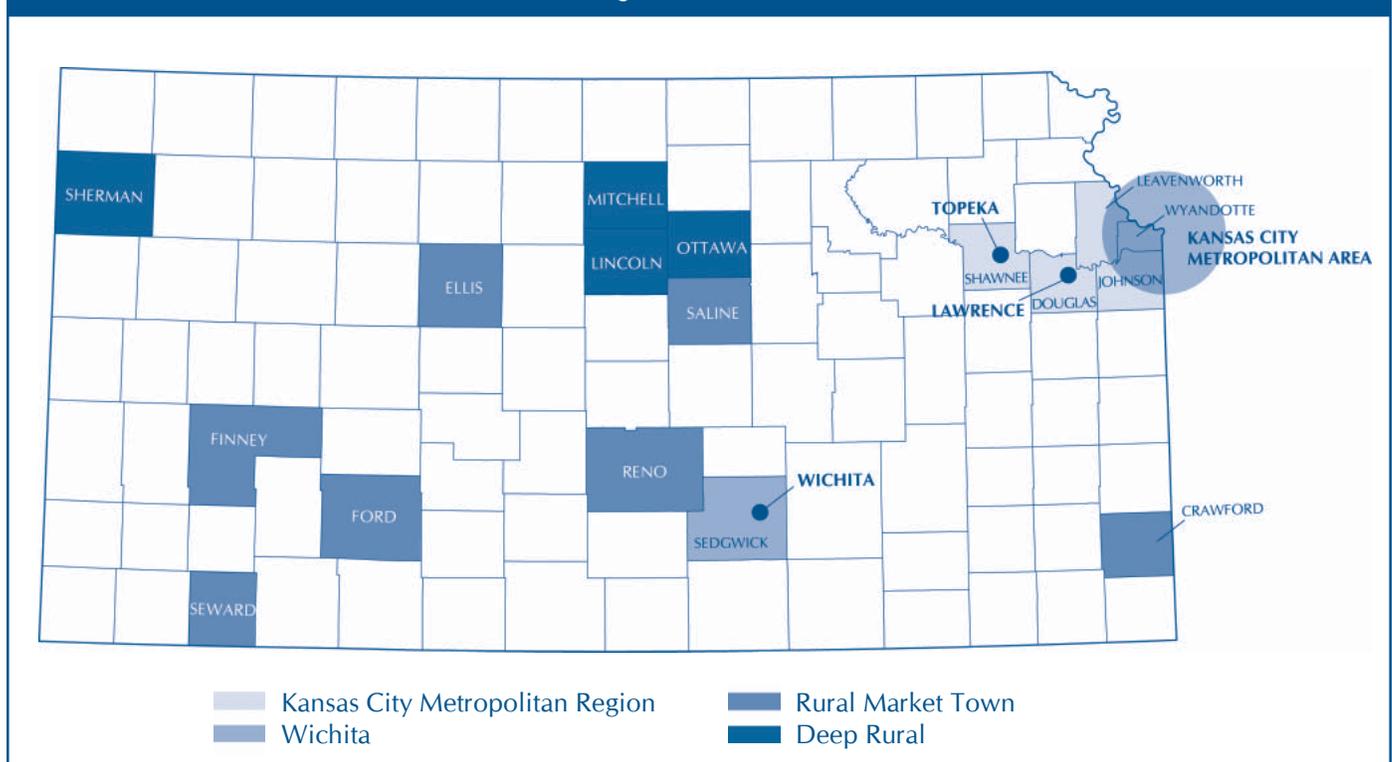
Kansas is a diverse state, composed of many rural areas, heavily dependent on agriculture, and a few major cities. Multiplier effects vary considerably according to the size and structure of each regional economy. The main body of this report provides the multiplier analysis for Kansas considered as an entire economic unit. However, a special sub-state analysis was conducted for four distinct types of counties:

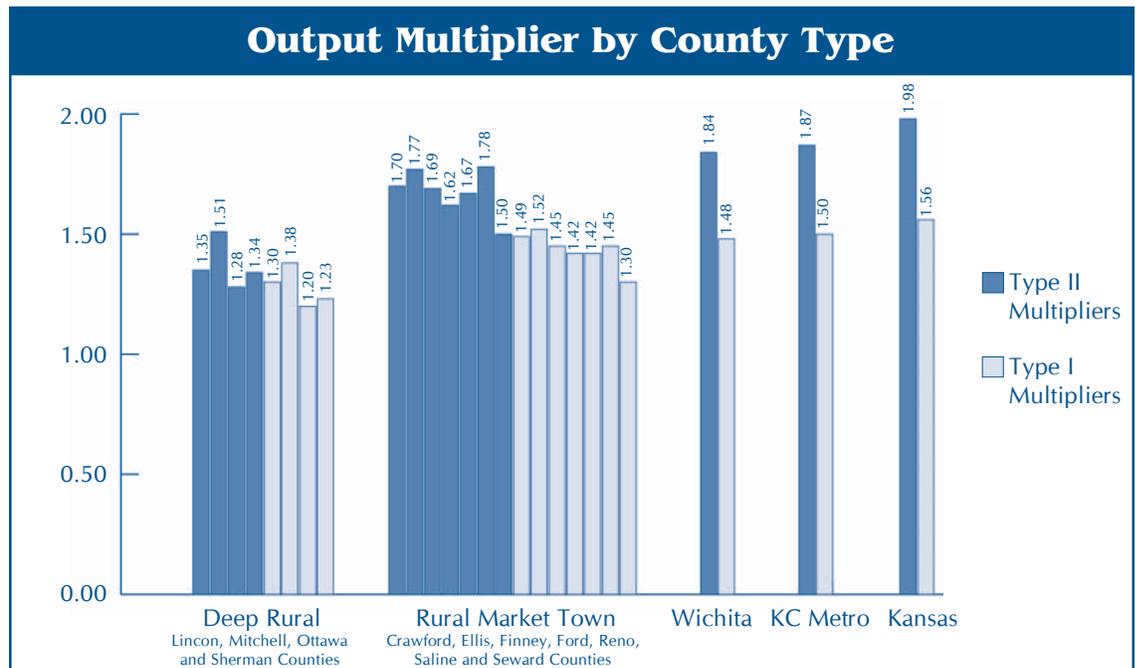
1. The Kansas City Metropolitan Region, consisting of the Kansas counties in three adjacent metropolitan areas (Topeka, Lawrence, and Kansas City), including Johnson, Leavenworth, Wyandotte, Douglas and Shawnee counties.
2. Wichita (Sedgwick County).
3. 'Rural Market Town' counties (including Crawford, Ellis, Finney, Ford, Reno, Saline and Seward).
4. Deep Rural (including Lincoln, Mitchell, Ottawa and Sherman counties). See map below for selected counties.

4. Deep Rural (including Lincoln, Mitchell, Ottawa and Sherman counties). See map below for selected counties.

The area used for the Kansas City analysis is not a typical configuration. The decision to use this area was based on recommendations from MARC staff, who point out that these are contiguous counties and *the three metropolitan areas function as one labor market area*. Benefits to businesses in one area undoubtedly spill over to the other areas in terms of shopping or job opportunities. A separate rural analysis is also important given recent research on the importance of child care for employment in rural areas. Time constraints did not permit separate individual county analyses for all Kansas counties, but these results for the sub-state areas given above provide a representative range of multiplier effects across rural and urban counties in Kansas.

### Sub-State Analysis: Selected Counties





Source: IMPLAN analysis conducted by Cornell University using IMPLAN 2000 data.

Input-output analysis captures the backward, or purchasing linkages of an industry to other industries in the economy being studied. The larger the regional economy under study, the larger the linkage effects are likely to be because a smaller proportion of the flows of spending and respending for purchased inputs “leaks” from a larger geographic economy than from a smaller one. In the output and employment multipliers presented in this section, the values for Kansas as an entire state are the largest, the Kansas City metropolitan region and Wichita are next, followed by rural market towns, and lastly by the deep rural counties.

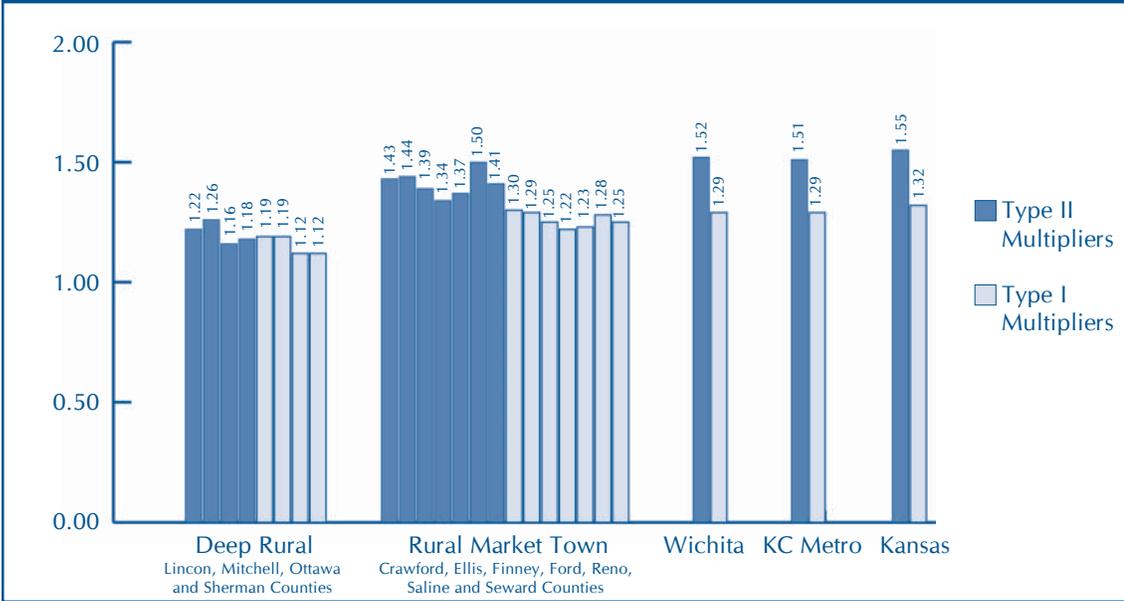
Type I and Type II multipliers are presented here for four different measures of economic impact: output, employment, labor income and value added. An *output multiplier* for the child care industry is an estimate of the gross number of dollars of sales that would be generated throughout the entire economy by each dollar of increased demand for child care services. Type I Output multipliers for the child care industry range from a low of 1.20 in the deep rural

counties to a high of 1.50 in the Kansas City metropolitan area.

Type II output multipliers range from a low of 1.34 in the deep rural counties to a high of 1.87 in the Kansas City area. The values for Wichita are similar to those of the Kansas City metro and the values for the rural market towns fall in the middle — lower than the metro areas but higher than the deep rural counties.

The **employment multiplier** is an estimate of the gross number of jobs that would be generated throughout the entire economy per each new job added in the child care industry. The pattern of multiplier values by geographic area is similar to that of the output multipliers. Deep rural counties have employment multipliers as low as 1.12 for Type I and 1.16 for Type II. Kansas City area values are as high as 1.29 for Type I and 1.87 for Type II. Rural market towns are in the middle. (See chart on next page.)

## Employment Multiplier by County Type



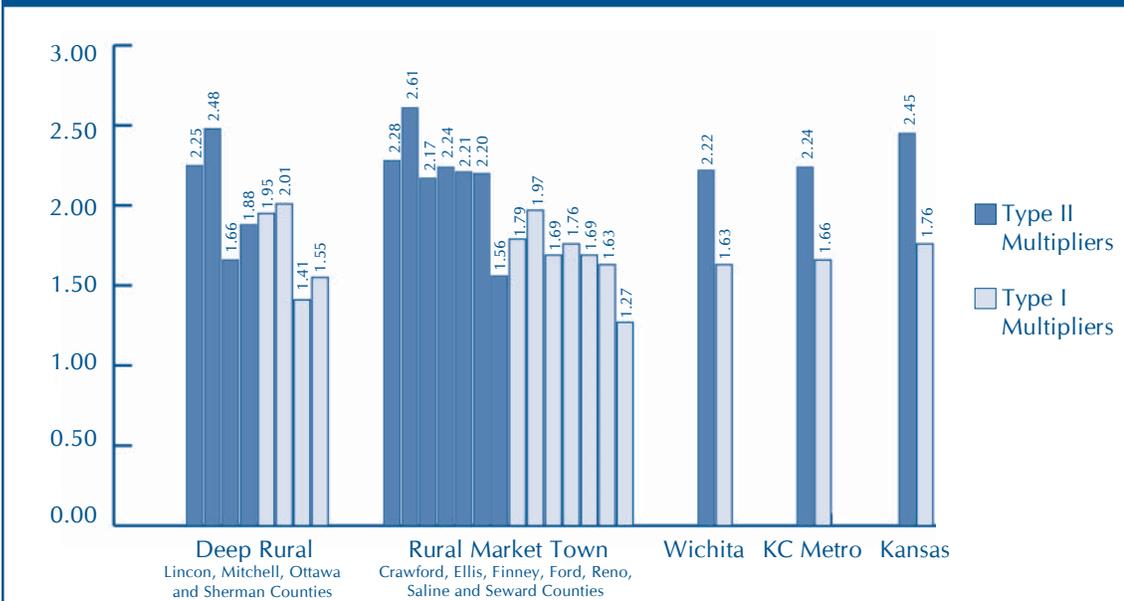
Source: IMPLAN analysis conducted by Cornell University using IMPLAN 2000 data.

A total **value-added multiplier** is much like an output multiplier except it is designed to avoid the double counting inherent in adding up sales figures. Such double counting arises because sales prices include value created at earlier stages of production. For example, the value of the steel is included in the price of a car sold by an auto manufacturer even though it did not make the steel but simply purchased it. By only including the value added at each stage of production, estimates of economic

value can be summed across sectors and firms without counting the value created more than once.

Value-added multipliers are larger than either output or employment multipliers and follow a slightly different geographic pattern than the other multipliers. The range in values for value added multipliers is from 1.27 to 2.01 for Type I and 1.56 to 2.61 for Type II. Both high and low values are found among the deep rural and rural market town

## Value-Added Multiplier by County Type



Source: IMPLAN analysis conducted by Cornell University using IMPLAN 2000 data.

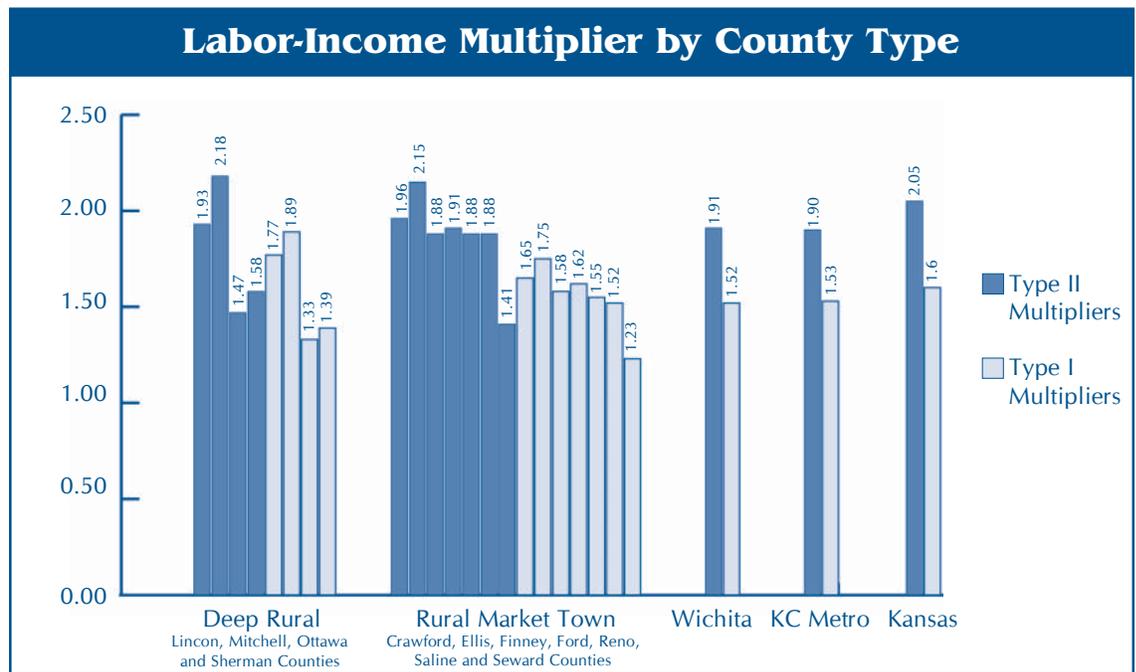
counties. Metropolitan areas and Kansas state figures are in the middle to high range. Most of the value added (from an economic linkage perspective) by child care is in the child care industry itself — child care adds labor and not much else. Higher value-added multipliers reflect, in part, a lower value added/output ratio for the sector.

Labor income is a component of value added representing the contribution of labor to the production of child care services. The **labor-income multiplier** measures the gross economy-wide increase in worker’s income per dollar of increased payment to child care providers. Labor-income multipliers are smaller than value-added multipliers and larger than either output or employment multipliers. They follow a similar geographic pattern to the value-added multipliers with both the lowest and highest values found among the rural market towns and deep rural counties for both Type I and

Type II impacts. Multipliers for metro areas and Kansas as a whole are in the mid-range.

**Geography matters.** Kansas is a diverse state. Although output and employment multipliers are higher for metro areas, this does not mean that from an economic impact perspective public investments in the child care industry should be biased to urban places.

Kansas policy makers must balance the need to serve parents and employers where they live with the need to build critical infrastructure in places where it is lacking. Some of the deep rural counties have no formal child care industry, and this limits formal employment opportunities for their residents. For example, child care has been shown to be a more important barrier to leaving welfare for rural parents than urban ones.<sup>39</sup> Child care supports economic development throughout Kansas and needs to be strong across the state.



Source: IMPLAN analysis conducted by Cornell University using IMPLAN 2000 data.

# Appendix C: Kansas Child Care Funding, State Fiscal Year 2002

Funding Source	Purpose	Kansas Funds	Federal Funds (Discretionary)*	Federal Funds (Designated)**
Kansas General Revenue	Subsidies	\$14,505,028		
Kansas Tobacco Settlement Funds	Subsidies	\$1,399,995		
	Smart Start	\$3,000,000		
Federal Child Care Development Funds (CCDF)	Subsidies			\$18,625,148
	Licensing			\$2,197,856
	Early Learning Quality Grants			\$4,066,111
	Kansas Early Head Start (EHS)			\$7,973,754
Federal TANF Funds Transferred to CCDF	Subsidies		\$15,796,597	
	Early Learning Quality Grants		\$210,292	
Federal SSBG Funds	Subsidies		\$488,435	
Federal Food Stamp Education and Training	Subsidies			\$396
Federal Early Head Start (EHS) Funds	Early Head Start (EHS)			\$6,983,741
Federal Head Start (HS) Funds	Head Start (HS)			\$43,517,705
Federal Child and Adult Care Food Program (CACFP)	Food Subsidies to Child Care Programs			***\$26,289,249
<b>Total Funding</b>		<b>\$18,905,023</b>	<b>\$16,495,324</b>	<b>\$109,653,960</b>
<b>Total Subsidies: \$50,815,599</b>		<b>Total Early Learning Grants: \$4,276,403</b>		<b>Total HS and EHS: \$58,475,200</b>

\* Federal funds that Kansas has the discretion to use for early childhood care and education programs.

\*\* Federal funds that are specifically designated for early childhood care and education programs.

\*\*\* CACFP funds include administrative costs, but these costs are not included on page 9.

# Appendix D: Leveraging Federal Funds with Kansas Dollars

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The methodology for determining how much federal funds are "leveraged" by Kansas funds was based on the following assumptions:

1. Kansas funding includes funds in the following three categories (all funds are SFY2002):
 

State general fund .....	\$14,505, 028
Tobacco settlement funds used for child care .....	4,399,995
Federal funds that Kansas elected to use for child care but which could have been used for other purposes (such as TANF transfer & SSBG) .....	16,495,324
	\$35,400,347
  
2. Federal funding includes federal funds that could only be used for early care and education services in Kansas (including Child Care Development Funds, Food Stamp Employment and Training, Head Start, Early Head Start and Child and Adult Care Food Program).
 

Federal funds .....	\$109,653,960
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The leverage of Kansas to federal dollars is the ratio:

$$\frac{\$109,653,960}{\$35,400,347} = 3.09754$$

The term leverage was defined broadly, to include all Kansas and federal funds (not just the CCDF funds that specifically required a state cash match) for the following reasons:

- Dollars spent on the infrastructure necessary to regulate, recruit, monitor and strengthen early childhood education programs (such as licensing and child care resource and referral services) are key to drawing in federal funds. Without licensing, or some sort of state approval system, child care programs could not access federal Child and Adult Care Food Program (CACFP) dollars. And without recruiting providers, many wouldn't know about the program or sign up. CACFP is an open-ended entitlement program that is wholly based on the providers applying for it and being approved by the state.
  
- Funding for Head Start and Early Head Start is based on competitive bidding. To the extent that Kansas programs are strong, they are more able to successfully bid for these federal funds. Additionally, in past competitions, Head Start and Early Head Start proposals were looked upon more favorably if they attracted funding from multiple sources to provide full-day, year-round services. To this end, the commitment of Kansas funds to Early Head Start, and the willingness to make child care subsidy funds available to Head Start programs, has helped to make the proposals more attractive to the federal administration. This has drawn more federal funds into Kansas.

# Glossary of Terms

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## **Accreditation:**

Validation of a program's adherence to national professional standards. Centers are accredited through the National Association for the Education of Young Children. The process includes self-study and documentation, external verification by program experts, and final approval by the Academy for Early Childhood Programs. Facilities must meet rigorous standards for physical space, curriculum content and teacher and/or administrator qualifications. Accreditation does not require licensure but is considered more stringent than many licensing standards.

## **Center-based Programs:**

Programs that provide care and education for a group of young children in formal settings outside of a home, including all for-profit or not-for-profit programs, public and private preschools, Head Start programs, faith-based programs, and child and family development programs.

## **Child Care:**

Provision of purposeful experiences, public or private, aimed at guiding the physical, emotional, intellectual and social development of young children, birth through eight years. Child care is synonymous with day care, early education, early learning, early literacy, nursery school and preschool.

## **CCDF:**

Child Care and Development Fund (federally-funded).

## **CACFP:**

Child and Adult Care Food Program (federally-funded).

## **ECE:**

Early Care and Education.

## **Early Head Start (EHS):**

A joint endeavor between federal and state governments to provide early intervention through high quality programs that enhance children's development during their formative years, enable parents to be better caretakers and teachers to their children, and help parents meet their own goals, including economic

independence. Comprehensive services provided to program participants include mental and physical health, nutrition, social services, parental involvement, services for children with disabilities and child care.

## **Family Child Care Homes — Licensed:**

Child care licensed to care for up to 10 children in the provider's home.

## **Family Child Care Homes — Registered:**

Child care registered to care for up to six children in the provider's home.

## **Family Home Program:**

Child care typically provided in a provider's home for more than one family's children.

## **Group Family Child Care Home:**

Child care provided outside the provider's residence. In Kansas, licensed group homes can care for up to 12 children with two licensed providers.

## **Head Start:**

A federally funded program for child development, operated for six or more hours a day, that provides a comprehensive child care program for eligible working or training parents.

## **License-Exempt:**

Facilities which are only inspected for fire and sanitation considerations. They are not subject to other requirements of licensure, like staff-to-child ratios or director qualifications. In Kansas, public school-based programs and summer camps are exempt from licensure, along with care on military bases, Job Corps, nannies, Native American reservation care, preschools less than four hours a day and hospital-based sick child care.

## **Licensed:**

Meets the health and safety standards set out by the Kansas Department of Health and Environment under state regulations. In Kansas, child care centers, group homes, and family child care programs caring for more than three children must be licensed or registered.

## **Portable Child Care Subsidies:**

Government-subsidized child care with the choice of provider made by the parent.

**Registered:**

Unlicensed family home providers who care for more than three children but less than six children must be registered with the Department of Health and Environment.

**Regulated:**

Child care that is licensed or registered by the Kansas Department of Health and Environment under the authority of state regulations.

**Resource and Referral (R&R):**

Locally-based agencies which provide a variety of services, especially working with parents to locate appropriate care. To assist parents, R&R's collect data about providers within their area. This resource information represents the most current, comprehensive source of information about the supply of early care and education.

**Subsidy:**

Child care chosen by parents who meet state income limits based on the federal poverty level. At the time of this study's publication, Kansas parents' income cannot exceed 150 percent of the federal poverty level, or \$22,536 for a family of three.

**Type I Multiplier:**

Counts both direct and indirect effects.

**Type II Multiplier:**

Includes both direct and indirect effects and induced effects generated by household spending (in this case, child care workers spending their wages and households purchasing child care services).

**Unregulated:**

Caregivers or facilities that are not regulated. This group consists of providers who should be regulated but are not, providers who are not required to be licensed, registered providers, relatives, and informal care arrangements. Examples of unregulated care include: hospital-based sick child care; illegal care; informal care; Job Corps child care; military base child care; Native American reservation child care; preschools less than four hours per day; providers associated with school districts; and relatives.

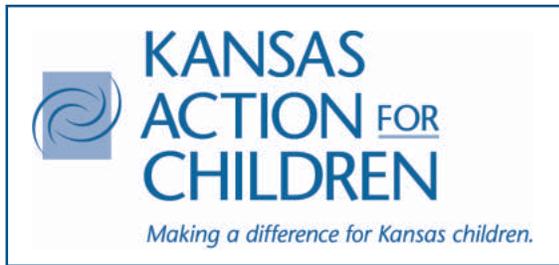
# Endnotes

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- <sup>1</sup> Data provided by the following organizations were used for this analysis: Kansas Department of Health and Environment (KDHE), Kansas Department of Social and Rehabilitation Services (SRS), the State of Kansas Biannual Child Care Market Analysis survey conducted by ETC Institute, the Kansas Department of Revenue, the U.S. Bureau of Census, the Kansas Children’s Cabinet, Kansas Association of Child Care Resource and Referral Agencies (KACCRRRA) and the U.S. Department of Health and Human Services Head Start Bureau.
- <sup>2</sup> These individuals are permitted to provide state-paid child care for up to six children; however most serve far fewer. It is also important to note that while data are available on the number of “informal” providers that are paid by SRS, these data represent only a fraction of the total informal child care industry. For this reason, informal, regulation-exempt child care was excluded from the economic impact analysis conducted for this report.
- <sup>3</sup> KDHE, February 2003.
- <sup>4</sup> This estimate is based on licensed capacity of child care centers and homes from KDHE. Discounting for vacancy rates, KDHE estimates over 105,000 Kansas children are in regulated paid care.
- <sup>5</sup> Ediger, L. December, 2002. *Child Care Resource and Referral 16 Region Reported Data*, KACCRRRA. The reported numbers were weighted based upon the percentage of children in each of the 16 reporting areas contributing to the total.
- <sup>6</sup> According to the 2002 Census data, the average family in Kansas has 2.66 children, and after accounting for single- and two-parent households, it was determined that on average there are 0.51– 0.7 working parents for each child in paid child care depending on family structure. These estimates compare favorably to the number of Kansas parents claiming the child care tax credit.
- <sup>7</sup> KACCRRRA. April 2002. *Who Cares for Kansas Children? Early Education Workforce Study*. [www.kaccrra.org](http://www.kaccrra.org).
- <sup>8</sup> For more information on the Professional Development Initiative, see <http://www.kaccrra.org/pdi/index.htm>.
- <sup>9</sup> These employment estimates are based on IMPLAN which uses ES 202 (Unemployment Insurance) data. The large number of self-employed providers in child care results in an undercount of the child care industry. KDHE licensing data were used to inform employment estimates, which were based on the following assumptions: one employee for every 10 children in center-based care, one employee for every home-based child care home, two employees for every group home-based child care home.
- <sup>10</sup> U.S. Department of Labor, Bureau of Labor Statistics, *Occupational Employment Statistics*, Washington, D.C. 2000.
- <sup>11</sup> McDonald, T. and Brook, J. 2000 Census Brief #2. *Counting Kids: The Changing Face of Kansas Children*. Kansas Action for Children. [www.kac.org](http://www.kac.org).
- <sup>12</sup> Publicly funded child care financial aid, which is awarded to eligible low-income families and used to purchase services in regulated child care centers and homes, is included in this calculation.
- <sup>13</sup> The basic formula used to calculate gross receipts of the Kansas child care industry was: (annual charges x enrollment) + government revenue. In this study, gross receipts are calculated for each category of care individually.
- <sup>14</sup> These data were aggregated from reports from the 16 different KACCRRRA regions of the state, based on surveys KACCRRRA conducted of all registered providers in each region. To account for non-response (the average response rate was: center care, 80 percent; home-based licensed, 85 percent; home-based registered, 72 percent; home-based group, 87 percent; preschool, 77 percent; Head Start, 72 percent; school-age, 68 percent) it was assumed the non-respondents would respond in a similar way to reporting respondents and imputed a 100 percent response. Results from this approach were then compared to estimates using the Kansas Biannual Child Care Market Analysis survey data (which are also weighted by type of provider, age

- of child, and geographic region), collected by ETC Institute, and found that these charges were typically higher than KACCRRRA reports. KACCRRRA reports were used because they are more conservative.
- <sup>15</sup> KDHE. Bureau of Child Care Licensing and Regulation. "Active Child Care Facilities and Agencies FY 02."
- <sup>16</sup> Ediger, L. December, 2002. *Child Care Resource and Referral 16 Region Reported Data*, KACCRRRA. The reported numbers were weighted based upon the percentage of children in each of the 16 reporting areas contributing to the total. This may include a portion of the children in the Government Funding section. Data does not allow us to separate the children served by government program funds placed in private care settings.
- <sup>17</sup> Ediger, L. December, 2002. *Child Care Resource and Referral 16 Region Reported Data*, KACCRRRA. To calculate an average weekly rate for all 16 areas, each weekly rate was weighted based upon that area's percentage of number of children served.
- <sup>18</sup> Weekly receipts were calculated by multiplying the number of children served in each category by the average weekly fee for each category.
- <sup>19</sup> The total numbers of weekly receipts were multiplied by 52 (number of weeks in a year).
- <sup>20</sup> Some child care economic impact studies have attempted to run a distribution of these parent workers back through the IMPLAN model and attribute all of the direct and multiplier effects of such parent earnings to the child care industry. While child care certainly increases parent worker productivity, it is inappropriate to suggest that the entire productivity of parent workers is attributable to the use of child care. Parents have skills and training, which in themselves have value, and their employers count the productivity of these parents directly. Further research is needed to more accurately count the level of economic impact from parent wages that can be attributed to the child care industry. This report takes a more conservative approach and simply estimates the level of parent wages.
- <sup>21</sup> For purposes of this report, state funding was characterized as state general revenues as well as other federal or private funds that were under state control and could be, at state discretion, allocated to child care. As the table indicates, this included: tobacco settlement funds, Temporary Assistance to Needy Families (TANF) funds transferred to Child Care Development Funds (CCDF), and Social Services Block Grant (SSBG) funds expended for child care. Federal funds included federal dollars that must be spent on child care, including: the Child Care and Development Block Grant; Food Stamp Employment and Training child care expenditures; federal Head Start and Early Head Start funds; and Child and Adult Food Care Program.
- <sup>22</sup> Midwest Child Care Research Consortium. Juniper Gardens Children's Project, University of Kansas. *How Does KDHE Licensing Support the Quality of Family Child Care for Young Children in Kansas? What are the Characteristics of Low and High Quality Child Care in Kansas? What is the Relationship of Training and Early Head Start Affiliation to Quality Child Care Programs in Kansas?*
- <sup>23</sup> See Appendix D for a detailed explanation of the methodology used to arrive at the leverage ratio.
- <sup>24</sup> There is currently not enough data to know the total for 2003. Due to budget deficits in 2004, Kansas is unsure of this amount as well.
- <sup>25</sup> State funds and federal funds controlled by the state are treated as state funds and run with a Type I multiplier. Designated federal funds are run with a Type II multiplier. For an additional explanation, please see Appendix C.
- <sup>26</sup> Effective February 1, 2003, the income eligibility ceiling was lowered to 150 percent of the federal poverty level, which is \$22,530 for a family of three.
- <sup>27</sup> Based on communication with child care staff in SRS, it was determined that parents with incomes at or below 185 percent of poverty who participate in the child care subsidy program have, on average, 1.8 children and that an average of 16,151 children and 9,006 parents were served each month.
- <sup>28</sup> Kansas, Inc. Kansas Economic Development Strategy, [www.kansasinc.org/eco\\_dev\\_strategy.htm](http://www.kansasinc.org/eco_dev_strategy.htm).
- <sup>29</sup> Kansas, Inc. October, 2001. *2001 Annual Report*. Table 2, pg. 4.
- <sup>30</sup> Rosenbloom, J. 2002. "Thinking About the Future: Education and Training Needs for the Workforce of the Future," *Kansas Business and Economic Review*. Vol. 25 No. 1. The University of Kansas: Policy Research Institute.

- <sup>31</sup> Okuyama, Kumiko and Weber, Roberta. (2001). Parents Receiving Child Care Subsidies: Where do They Work? A View from Four States and the District of Columbia. Oregon Child Care Research Partnership: Albany, Oregon.
- <sup>32</sup> *Making the Knowledge Economy Work for All Kansans: Kansas Comprehensive Strategic Plan Update*. Economic Competitiveness Group, Inc. Cambridge Systematics, Inc. [http://www.kansasinc.org/pdf/kcspu01/chapter\\_2.pdf](http://www.kansasinc.org/pdf/kcspu01/chapter_2.pdf).
- <sup>33</sup> Kansas, Inc. 2001 Annual Report, October 2001.
- <sup>34</sup> Barnett, W. Steven. 2002. *Early Childhood Education, School Reform Proposals: The Research Evidence* (Information Age Publishing), edited by Alex Molnar.
- <sup>35</sup> National Institute for Early Education Research. 2003. *Fast Facts: Economic Benefits of Quality Preschool Education for American 4-year olds*. <http://nieer.org/resources/facts/index.php?FastFactID=6>.
- <sup>36</sup> Karr-Moss, Robin and Wiley, Meredith. *Ghosts From the Nursery: Tracing the Roots of Violence* (New York: The Atlantic Monthly Press, 1997), 38, 200-202.
- <sup>37</sup> Barnett, W. Steven.
- <sup>38</sup> An industry's economic impact on an area is not only a function of its multiplier, but how much money it is attracting to the economy from outside the region. Therefore, while it may be appropriate to compare industry multipliers within a broad sector like services, or similar infrastructure sectors, it is much less appropriate to compare multipliers between services and manufacturing or agriculture. In essence, the multipliers represent upper bounds of impact. Manufacturing and agriculture meet the conditions that satisfy using those upper bounds. Service sector industries generally do not. However, several cross sectoral comparisons are presented here to show how different the linkage effects of these different types of industries are.
- <sup>39</sup> Fisher, Monica and Bruce Weber, (2002). "The Importance of Place in Welfare Reform: Common Challenges for Central Cities and Remote-Rural Areas," Research Brief, Washington, DC: Brookings Institution. <http://www.brookings.edu/dybdocroot/es/urban/publications/weber.pdf>.



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## **Advisory Committee**

Phil Anderson, Kansas Department of Social and Rehabilitation Services  
Rae Anderson, National Child Care Information Center  
Gary Brunk, Kansas Action for Children  
Jim Caccamo, Ph.D., Kansas Health Foundation  
Joyce Cussimano, Kansas Children's Cabinet  
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Jane Weiler, Kansas Department of Social and Rehabilitation Services  
Becky Woerz, Professional Development Initiative for Early Education in Kansas  
Alice Womack, Kansas Department of Social and Rehabilitation Services



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