Which Washington industry...

employs 30,600 people in more than 9,000 small businesses,
produces $836 million in gross annual revenues,
pays $566 million per year in wages,
generates $1.64 billion in sales,
leverages $7 in federal funds for every $1 invested by the State of Washington, and
provides long-term benefits to society that yield a 12 percent rate of return to the public?

(Hint:)
Child Care is not Child’s Play
The Economic Impact of the Child Care and After-School Industry in Washington

The care of children is an industry that is vital to our economy. This industry provides education and care to children from birth to age 12. The focus on children can mask the significant role this industry plays in the Washington state economy. But in fact, the child care industry:

- Generates $836 million in revenue and creates more than 30,600 jobs;
- Contributes to the infrastructure needed for a strong economy; and
- Provides long-term benefits by preparing children to succeed in school and be skilled, productive workers.

Yet our state’s child care industry is not targeted for economic development activities and funding, including small business support, workforce development and retention, neighborhood revitalization and community planning. The child care industry would benefit from traditional economic development policies and supports, such as grants and subsidized loans; tax abatements, deductions and credits; vouchers and user fee discounts. Subsidies to this industry could be used to stimulate expansion and quality improvement, to encourage private investment and to promote equity and access by making user fees affordable. The payoff to taxpayers would be a thriving child care industry that will yield high returns and contribute to our state’s economic health.

The purpose of the report is to provide the business community, government and philanthropists of Washington state with a comprehensive picture of the child-care industry and to offer recommendations for strengthening the industry.

This report was prepared by the Northwest Finance Circle, an initiative with a goal to ensure that families in Seattle, King County and Spokane, Washington have equal access to high quality, affordable child care services that meet the needs of diverse families. The Northwest Finance Circle was staffed by the Human Services Department of the City of Seattle, in partnership with Child Care Resources, School’s Out Washington and the Health Improvement Partnership of Spokane.

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The term “child care” includes:

Early childhood education: Education and care of children birth to age 5, including licensed child care and preschool programs such as Head Start and the Early Childhood Education Program (ECEAP).

School-age care: Licensed and unlicensed programs that serve children 5-12 years old before and after school, and during summer and school breaks.

Licensed care: Programs that meet State of Washington minimum standards for health, safety and quality.

Unlicensed care: Programs for children ages birth to 12 that do not require a state license, including part-time nursery schools; paid care by family members, friends or neighbors; parks and recreation programs; arts and sports programs; drop-in clubs; tutoring programs; and some day camps.
Child Care: Generating Revenue and Creating Jobs

**Businesses, employees, wages**
The child care industry contributes directly to our economy. In Washington state, this industry produces gross annual revenues of $836 million from 9,012 businesses. These businesses have 30,600 employees whom they pay a total of $566 million in wages each year.1 The charts below show the relative sizes of the industry in the state, King County and Seattle.

<table>
<thead>
<tr>
<th></th>
<th>Licensed Child Care Businesses</th>
<th>Employees</th>
<th>Total Annual Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington</td>
<td>9,012</td>
<td>30,600</td>
<td>$566 million</td>
</tr>
<tr>
<td>King County</td>
<td>2,041</td>
<td>8,537</td>
<td>$175 million</td>
</tr>
<tr>
<td>Seattle</td>
<td>620</td>
<td>2,491</td>
<td>$50 million</td>
</tr>
</tbody>
</table>


**Employment**
Jobs generated in the child care industry stay in our state. Licensed child care in Washington employs more people than either the hotel or the retail apparel industries. In fact, more than 1 percent of all employees in Washington work in licensed child care programs. In 2002, an additional 26,300 people were employed as unlicensed child caregivers, bringing the industry total to 56,900 employees – 2 percent of the state’s workforce. The following graph compares the number of employees in child care with that of several other major industries.

The average wage for employees in this sector in 2003 according to the U.S. Department of Labor, Bureau of Labor Statistics is $11.10 an hour ($23,090 annually) for a Preschool Teacher and $8.77 an hour ($18,240 annually) for a Child Care Worker. The State of Washington’s Department of Social and Health Services biannual survey of child care providers found that licensed Family Child Care Providers earned, on average, $27,100 per year, while child care center directors earned $24,492 per year.

“The conventional view of economic development typically includes company headquarters, office towers, entertainment centers, and professional sports stadiums and arenas . . . [I]n the future any proposed economic development list should have early childhood development at the top.”

Art Rolnick and Rob Grunewald, Economists for the Federal Reserve Bank of Minneapolis

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**Washington Industry Employment Comparison**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Licensed: 30,600</th>
<th>Unlicensed: 26,300</th>
<th>Total: 56,900</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing - aircraft and parts</td>
<td></td>
<td></td>
<td>76,874</td>
</tr>
<tr>
<td>Child Care</td>
<td></td>
<td></td>
<td>56,900</td>
</tr>
<tr>
<td>Agriculture - crops</td>
<td></td>
<td></td>
<td>51,387</td>
</tr>
<tr>
<td>Apparel Retail</td>
<td>24,204</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hotel</td>
<td>23,791</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


29,100* employees in licensed programs serving 164,000 children
Licensed child care employees are paid $566 million in wages
Those employees’ spending generates $1.64 billion in sales
This spending supports 39,000 jobs, and $866 million in additional labor income

Resulting in $65 million in taxes (sales and B&O)

Source: W.B. Beyers, Estimating Economic Impacts of Child Care in Washington State, King County and Seattle (2003)
*Note: Numbers are based on data from the Washington State Department of Social and Health Services data from 2000. In 2002, the number of employees in licensed child care programs was 30,600.

Spending
Another way the child care industry contributes to the economy is through its spending in other sectors. Dollars spent in this industry stay in Washington state and fuel local economies. These small businesses generated $836 million in gross annual revenues that were spent locally, and their sales volume supported jobs in related industries, bringing economic benefits through sales taxes and Business and Occupation tax revenues. The above graphic reflects the multiplier impact of the child care labor income spending in Washington state.

Leverage
Child care benefits the state economy by leveraging substantial amounts of federal dollars. In 2003, the State of Washington’s investment of $50 million for licensed and unlicensed child care and school-age care were matched by approximately $350 million from the federal government.2

Child Care: Contributing Key Infrastructure for a Strong Economy

The child care system, like roads and public transportation, is part of the infrastructure for economic development. There are three main ways that the child care system supports the workforce and small businesses:

- By making employment possible for parents;
- By helping working parents to be more productive; and
- By supporting small businesses to attract and retain parents in low- and moderate-wage jobs.

The child care system relies on public and private support, both to build infrastructure and to make child care affordable for families.

“For the millions of working parents employed in small businesses in Seattle and across this state, safe and affordable child care is an important part of economic success.”

Greg Nickels, Seattle Mayor
Child care makes employment possible for parents

Approximately 56 percent of employed parents in Washington use some form of child care on a regular basis. Working parents use child care (or family, friend or neighbor care) an average of 26 hours per week for children aged birth to five, and 16 hours a week for school-age children. The earnings of these parents bring significant benefits to their families and to the economy. In Washington, employed parents who use child care earn an average household income of almost $52,000 a year.

For the estimated 250,000 families in Washington who use licensed child care, annual earnings total almost $13 billion. Including families who use unlicensed care would increase the amount of earnings substantially.

Economic Impact of Working Parents’ Wages

Families with at least one working parent: 250,000

Average annual household earnings in Washington: $51,974

Parent Impact: $13 billion in wages

Note: 1999 numbers not adjusted for inflation. Source: E. J. Maher, A. Chia-Chen Chen, a Description of Employed Parents Using Child Care in Washington State, (Seattle, Wash.: Human Services Policy Center, Evans School of Public Affairs, University of Washington, 2004).

Industries Employing Washington Parents who use Child Care

37% Other
15% Retail Trade
8% Educational Services
8% Manufacturing
7% Medical Services
6% Transportation
6% Construction
5% Public Administration
8% Finance, Insurance, Real Estate


Where are these parents employed? This chart shows that working parents who use child care span all sectors of the economy. The sectors with the highest percentage of employed parents using licensed child care are highlighted.

The “other” category contains all of the other industries in which fewer than 5 percent of employed parents work, including mining, communications, utilities, private household services, entertainment and recreation, hospitals, social services, armed forces, forestry and fisheries.
Child Care: Contributing Key Infrastructure (continued)

Stable child care reduces employee absenteeism and improves productivity

When parents are worried about their children, they have difficulty concentrating at work, reducing their productivity. Poor or unreliable child care and after-school activities cause working parents to miss days at work, arrive late, leave early, or use work time to deal with these problems — losing the equivalent of six work days per year. In Seattle alone, the yearly loss from these absences is estimated at $112.5 million.

Businesses have found that providing employees with assistance in finding or keeping high-quality child care yields benefits to the company. These benefits include improved retention of trained employees and recruitment of new talent. A high-quality child care system is part of the economic infrastructure that can be used to attract new industry and employees to our state. Recruitment of skilled, young professionals with children – especially in targeted growth industries such as biotech – is enhanced when high-quality, affordable child care is available. On the other hand, the high cost of child care contributes to the overall high cost of living in the Puget Sound Region. In their 2001 Regional Economic Vitality Agenda, the Washington Research Council cited the high cost of living as a barrier to recruiting employees from outside the region.

Child care cost assistance supports small businesses

Employers that pay low/moderate wages benefit from public child care subsidy programs. The State of Washington and some cities have child care cost assistance programs that help low-income working families pay for child care. These child care subsidy programs are an important part of the economic infrastructure in two ways:

They help parents stay employed.
In Washington, 8 percent of working households receive a child care subsidy.

They are essential for the many businesses that cannot pay high enough wages for their employees to cover the full price of child care.

The average annual household income for families receiving the state subsidy is $17,500. In Seattle, the average annual household income for families receiving the City’s subsidy is $32,000.

Industries Employing Parents who Receive City of Seattle Subsidies

What kinds of business are helped by child care subsidies for their workers? Using City of Seattle subsidies as an example, the chart above shows a wide range of employers, with medical services and retail comprising nearly a third of all industries in which Seattle parents who receive City-funded child care subsidies work.
Child Care: A Failed Market Good

In the short term, the child care industry is not able to offer consistently high-quality early education and after school programs at a price that families can afford, thus it is not producing the outcomes for children that would, in the long term, contribute to a thriving economy and skilled, stable workforce. Public investment in this industry has not bridged the gap between what most families can afford and the true cost of high-quality programs.

Investments in K-12 education are nearly four times those for early education

In spite of the significant benefits that high-quality child care brings to the community and the economy, it is chronically under-funded. Child care is treated as a “market” good and parents, for the most part, are expected to pay the cost of the service. As indicated in the chart below, in Washington, the government (state and federal) investment in public school (kindergarten through high school) is almost four times higher than the investment in child care.

Because public investment is low, the cost to families is high

The average family of four spends more than 20 percent of its budget on child care — more if the children are under age 5. Housing is the only expense category that takes up more of the family budget. Overall, self-sufficient families pay between 19 percent and 28 percent of their family budget for child care expenses.¹⁵  The table below shows the wages needed to support a family of four without public assistance, and the percentage of the family budget going to child care for a sample of Washington counties.

<table>
<thead>
<tr>
<th>Location</th>
<th>Hourly wage of each adult needed to meet basic needs</th>
<th>Percentage of family budget required for child care*</th>
</tr>
</thead>
<tbody>
<tr>
<td>King County (East)</td>
<td>$11.76</td>
<td>25%</td>
</tr>
<tr>
<td>Chelan County</td>
<td>$7.90</td>
<td>21%</td>
</tr>
<tr>
<td>Franklin County</td>
<td>$8.34</td>
<td>20%</td>
</tr>
<tr>
<td>Spokane County</td>
<td>$8.61</td>
<td>22%</td>
</tr>
</tbody>
</table>


State and Federal Funding

<table>
<thead>
<tr>
<th>Public school (K-12)</th>
<th>$5,985/child¹²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child care and after-school care</td>
<td>$1,588/child¹³</td>
</tr>
</tbody>
</table>

Note: Except for a relatively small amount of federal Community Development Block Grant dollars for capital projects, government does not fund facilities or transportation for child care.¹⁴ Because there is virtually no funding for child care facilities, some of the operational funding is diverted for capital projects. Government does fund capital and transportation costs for K-12 public education.

Early education cannot be delivered effectively without adequate resources

Child care is failing as a market good because the consumer cannot afford the true cost of the product (service). As a result, the producer (child care programs) subsidizes the industry with low wages, and the consumer (parents) subsidizes the industry by accepting a lower-quality product. In the end everyone suffers — providers get low wages, families get low-quality child care and children lose potential.

The industry needs external supports

Child care and early education for our youngest children are basic human needs that should be recognized as a public, or social, good. Their support, which should come from both the public and private sectors, should be driven by social outcomes, not by market forces.

“Child care can be viewed as a social good, rather than a private purchase, since high-quality care (or the lack thereof) has the potential to affect all of society. When the child care system ‘fails’ it is all of society that has to ‘foot the bill’ in the end, starting with the school system.”

Deborah Phillips, Georgetown University
Child Care Today... Success Tomorrow

“Getting more kids to school who are ready to learn not only makes it easier for teachers, but it also has the potential for creating tremendous economic benefit by helping more children become skillful citizens and lifelong learners.”

Bob Watt, Vice President of Government and Community Relations for Boeing Commercial Airplanes

Link from early care to future success
The knowledge and technology economy and children’s future success are enhanced by high-quality child care, which helps to close the school achievement gap for low-income children. This, in turn, helps to develop a strong pool of future workers. Children in high-quality early education are “more likely to graduate from high school, attend college and own their own home.” Recent brain research demonstrates that stimulation and nurturing in the early years are critical to the optimal brain development of young children. Studies have linked the quality of the early care and education a child receives with his or her readiness for school. Readiness for school is linked with success in school and beyond. So building a strong workforce means supporting learning, reaching back to the earliest years of life.

High return on investment
One study of long-term impacts found that every $1 invested in high-quality early childhood programs yields a savings to the public of $7 in remedial education, criminal justice and social costs. With high-quality early education, students are less disruptive in class, are less likely to be placed in special education, have lower teen pregnancy rates, and commit fewer crimes. Low-income children reap the most benefits from high-quality programs, reducing the likelihood of expensive negative outcomes. Over the long run, this saves taxpayers money. An economic study has estimated that high-quality early childhood programs can yield a 12 percent rate of return to the public.

But in order to deliver this rate of return, the child care “product” must meet higher standards of quality, which means either the price to parents must be significantly increased, or there must be more public and private investment in the system.

“The business community supports high-quality early childhood education programs because they lead to improved education results, a world-class work force, a healthier society, and ultimately a stronger economy.”

Joseph M. Tucci, Chairman, Education and Work Force Task Force of the Business Roundtable; and President and CEO, EMC Corporation

The Child Care Industry: A Call to Action

If the child care industry is going to contribute its full value to our state’s economic vitality – like housing, education and transportation – it will need external supports. The child care industry is constrained by:

- Exclusion from economic development planning and resources;
- Insufficient investments from business, philanthropy and government;
- Economic barriers to improving and maintaining quality, and
- Financial limitations of consumers.

To effectively address these constraints, child care should be a sector that is targeted for economic development activities and funding, including small business support, workforce development and retention, neighborhood revitalization and community planning. The child care industry would benefit from traditional economic development policies and supports, such as grants and subsidized loans; tax abatements, deductions and credits; vouchers and user fee discounts. Subsidies to this industry could be used to stimulate expansion and quality improvement, to encourage private investment and to promote equity and access by making user fees affordable.
The following investment strategies are recommended for business, philanthropic and government sectors, and community partnerships:

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Advance the effectiveness and quality of the child care industry by strengthening workforce development and retention and by providing support for business management practices.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business, Philanthropy and Government Partnerships</strong></td>
<td>Use federal, state and local workforce development resources — such as the state’s Job Skills Program (JSP) and the Workforce Development Council — to support training, job placement and staff retention for the child care sector. Form partnerships with the higher education system to ensure sector workforce training needs are met. Establish small business assistance centers in conjunction with child care resource and referral programs – similar to those funded by the Washington State Community, Trade and Economic Development Department – to help small businesses be competitive, meet regulatory standards and be responsive to consumers.</td>
</tr>
<tr>
<td><strong>Recommendation 2</strong></td>
<td>Ensure adequate, sustainable financing for the industry.</td>
</tr>
<tr>
<td><strong>Government</strong></td>
<td>Raise the state’s child care subsidy reimbursement rates to the 75th percentile of the 2004 market rates. This rate standard was proposed by the federal government to ensure equity of access to high-quality programs for low-income families. Currently, the state reimbursement rate is at the 36th percentile of the 2002 market rates, which limits access for families and constrains providers’ ability to serve low-income children and sustain high-quality services. Offer cash incentives, such as tiered reimbursements and bonuses, to stimulate and sustain improvements in quality. Include funding for early learning and after school services in the State of Washington’s basic education formula. Extend current Business and Occupation Tax exemptions to include those licensed child care providers serving children up to age 12.</td>
</tr>
<tr>
<td><strong>Partnerships</strong></td>
<td>Offer tax incentives for private developers to incorporate space for child care programs in new housing or business developments in urban, rural and suburban areas, and to landlords that offer free or below-market-value rent to child care programs</td>
</tr>
<tr>
<td><strong>Recommendation 3</strong></td>
<td>Expand equity and access for consumers by making the price reasonable for low- and middle-income parents.</td>
</tr>
<tr>
<td><strong>Government</strong></td>
<td>Expand eligibility for state child care subsidies to 300 percent of the federal poverty level to ensure equity of access to high-quality programs.</td>
</tr>
<tr>
<td><strong>Partnerships</strong></td>
<td>Foster public/private partnerships, like the one in Florida for child care scholarship programs, that match government subsidy dollars with private sector contributions or that offer tax incentives.</td>
</tr>
</tbody>
</table>
The Child Care Industry: A Call to Action (continued)

The industry could also benefit from expanded consumer education and accountability measures. For example, a quality rating system for licensed child care programs could guide consumers when choosing programs and put pressure on the child care market to improve quality. Developmental assessments of a sample of children might better inform funders about the effectiveness of their quality improvement investments, and provide assurance that children are thriving. Periodic consumer satisfaction surveys could help the industry gauge if they are providing the product parents want and what they think could be done to improve it.

Leadership from the business and philanthropic communities

With support of business interests and members of the philanthropic community, the Greater Seattle Chamber of Commerce is exploring ways to work together effectively to raise public awareness about the importance of early learning and to encourage private investment to improve children’s access to high-quality early learning opportunities. The Chamber effort could result in advocating the implementation of this report’s recommendations, including identifying innovative funding opportunities for strategies that have been proven effective in helping children be ready to succeed in school.

“Everyone who cares for and about children is troubled by the lack of importance placed on early care and education and activities outside of school. In this global economy, we all should be worried.”

Phyllis Campbell, Regent, Washington State University, and former president of U.S. Bank of Washington, and Peter Steinbrueck, Councilmember, Seattle City Council

Conclusion

Child care is part of the fabric of our economic infrastructure. The child care industry generates revenue, creates jobs, plays an important role in the economic infrastructure, and provides long-term economic and social benefits. If we are to reap the benefits this industry can produce, we need to:

- **Expand** public and private investment.
- **Work in partnership** with state, regional and local economic development organizations to explore new ways to strengthen the child care industry to maximize its potential to contribute to our state’s economy.

Our low public investment yields a high cost to families, children and our economy. It is time to take child care as an industry seriously, as we work for a strong Washington economy — now and for the future.
Notes

1. Data for these numbers came from the Washington State Department of Social and Health Services (DSHS) 2002-2003 data, Child Care Resources 2003 data, and Northwest Finance Circle (NWFC) analysis using the 2002-2003 data. In 2002, according to DSHS, gross revenues for licensed facilities were $836 million; gross revenues for unlicensed facilities were $426 million; total gross revenues for licensed and unlicensed facilities were $1,262 million, and the number of employees in unlicensed programs was 26,300.

2. The federal government probably spent more than $350 million in Washington in 2003; however our research was not able to capture some of the smaller, categorical amounts of federal dollars for child care and school-age care that have come into the state.


4. This amount is in 1999 dollars and has not been adjusted for inflation. This calculation does not include the many working parents who use unlicensed care. This means that the total parent income of all parents using some form of child care is much higher than $13 billion.


9. To qualify for the Washington subsidy program, Working Connections, families must have a household income at or below 200 percent of the Federal Poverty Guideline. Some cities also provide subsidies to working low-income parents. Seattle provides subsidies to parents whose family income is at or below 300 percent of the Federal Poverty Guideline.


11. Child Development Program, Human Services Department, City of Seattle (October 2003).


14. In 2002, $250,000 of CDBG funds was allotted for capital projects for child care by the City of Seattle.

15. Diana Pierce, Ph.D. and Jennifer Brooks, the Self-Sufficiency Standard for Washington State (September 2001). The amount of money a family needs to be economically self-sufficient depends on family size and composition, the ages of the children, and where the family lives.


21. Ibid.
Acknowledgments

Note on methodology:
This report contains economic analysis data that attempts to provide a general economic picture of the child care industry. The financial analysis done by the Northwest Finance Circle staff extrapolates numbers that are based on many assumptions. All resulting numbers from the Finance Circle presented in this report should be considered to be estimates based on the best data available to us. Written by Jodi Nishioka and Billie Young.

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