

A GUIDE FOR DEVELOPING  
CHILD CARE FACILITIES  
WITH AFFORDABLE HOUSING

# Assessing *the Child Care Market*



BUILDING    SUSTAINING    LEADING

<b>II. Assessing the Market</b>	29
<b><i>Market Demand</i></b>	31
Demand Methodologies	31
1. Addressing Local Child Care Mitigation Requirement	33
2. Providing a Service to Property Residents—Demand from New Housing Development	33
3. Addressing an Identified Community Need—Demand from the Surrounding Area	34
4. Achieving Child Care-Housing-Jobs Balance—Demand from Businesses and Transit	36
<b><i>Market Supply</i></b>	37

# Assessing *the Child Care Market*

## Summary

As with the development of housing, the first step in creating a child care facility is an understanding of the surrounding market area. The success of a child care facility depends on the needs of the surrounding market, which can be determined by comparing the demand and supply of child care slots. This includes evaluating the current and projected demand as well as the existing and pipeline supply of facilities.

Determining the amount of unmet demand by the type of child care arrangement is critical to sizing the center and securing realistic financing since the amount of demand for a particular type of child care arrangement will differ from the aggregate demand for child care. Funders of the child care facilities will request market data that supports the facility's future success. Yet assessing demand for child care is at best an approximation based on qualitative and quantitative information available for the area and the nation as a whole. This section provides information and tools for an initial assessment of market demand and supply for child care.

If a market study is required by a funder, contract with a market study consultant. Make sure that you agree with the methodologies your market study analyst plans to utilize since few consultants have conducted these studies. The consultant should be able to conduct demand analysis by income group, analyze the assumptions of data sets of demand forecasts, carry out detailed trend analysis by service age group, examine enrollment by full-time or part-time basis, conduct surveys or focus groups, and look at projects in the pipeline. The Local Planning Council, Resource and Referral Agency, or the California Resource and Referral Agency may be able to assist you with finding an appropriate market study consultant. At the time of this writing, few child care facilities serving low-income families have been financed with conventional debt and public lenders, and community development financial institutions have not required formal market studies.

## Market Demand

### DEMAND METHODOLOGIES

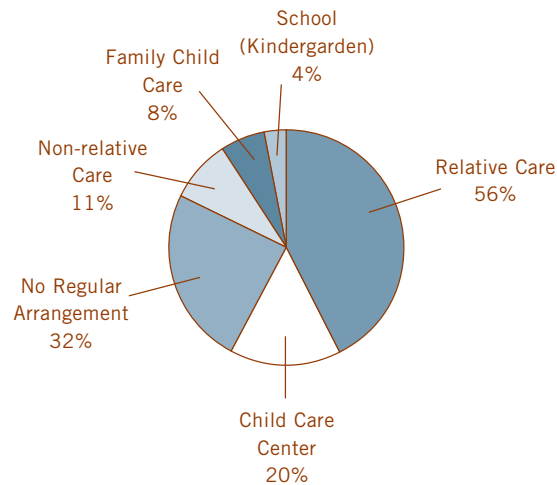
There are a variety of factors that impact the demand for affordable child care. Some of the major factors that impact demand include:

- Demographics of the population in the immediate area, both present and in the future
- Proximity to major employers and/or proximity to transportation commute lines
- Pipeline for new housing, jobs, and child care facilities in the area
- Utilization rate of different types of child care in the neighborhood

Please Note: The Survey of Income and Program Participation (SIPP) collected by the U.S. Census provides child care arrangement utilization rates by family characteristics and employment status of the mother. In 1999, 7.6 million of the 18.2 million children under five years of age were in some form of regular non-relative child care arrangement during a typical week. Forty-three percent of child care arrangements were with non-relatives and 23% were with child care centers (including center, nurseries, preschools, and federal Head Start programs). Child care centers make up 20% and family child care homes make up eight percent (8%) of child care arrangements.<sup>31</sup>

<sup>31</sup> U.S. Census. "Who's Minding the Kids? Child Care Arrangements: Spring 1999." Issued 2003. <http://www.census.gov/population/www/socdemo/child/ppl-168.html>

## CHILD CARE ARRANGEMENTS OF PRESCHOOLERS OF EMPLOYED MOTHERS<sup>32</sup>



Many families make multiple types of child care arrangements. In the pie chart, a family with multiple arrangements is counted under more than one category.

Source: U.S. Census: Who's Minding the Kids? Child Care Arrangements: Spring 1999.

There is currently no one predominantly accepted method for assessing demand for child care. Additionally, the quality and availability of information varies significantly from area to area; the availability of data may mean that only certain approaches may be used.

Since demand for child care services can come from a number of sources, it will frequently be necessary to utilize more than one approach in assessing demand. However, this could lead to an overrepresentation of demand. For example, demand data on pipeline housing developments, the surrounding neighborhood, and major employers in the area could count some of the same households multiple times. Families in the surrounding neighborhood may move into new housing in the neighborhood and may work in the neighborhood. Since data frequently does not enable multiple counting to be eliminated, it is important to apply the results conservatively when sizing your center.

This section provides methods of assessing demand depending on your primary target market for the child care facility. The different methodologies are:

- Local child care mitigation requirement
- Providing a service to property residents
- Addressing an identified community need
- Child care-housing-jobs balance

<sup>32</sup> Since 19.5% are in multiple arrangements which tie in number of hours, the total percentage exceeds 100%.

**1. ADDRESSING LOCAL CHILD CARE MITIGATION REQUIREMENT**

Some localities will prescribe a methodology for determining child care demand generated by your proposed residential or commercial development. A child care impact mitigation proposal may need to be submitted prior to the Planning Commission’s review of your development proposal.

Since 1988, Contra Costa County has utilized the following equation:<sup>33</sup>

(1) TOTAL # OF UNITS	X	(2) GENERATION RATE	X	(3) WOMEN’S LABOR RATE	X	(4) 50% NEED
-------------------------	---	------------------------	---	---------------------------	---	-----------------

- (1) Total number of units in the proposed development.
- (2) The current generation rates for children 0–2, 3–5 and 6–12 years of age in the area of your development. This information can be obtained from the local School District or the County Demographer.
- (3) Women’s labor rate represents women’s workforce participation. The labor rate is available through the U.S. Department of Labor, Bureau of Labor Statistics. The women’s labor rate overall can be found in the DOL’s frequently asked questions, <http://www.dol.gov/wb/faq38.htm>. If focusing on women’s child-bearing years, the women’s labor rate by age and sex can be found in data tables available through the general website, <http://www.bls.gov/cps/>.
- (4) Assumption that 50% of children of working mothers will need non-relative child care, outside of the home. Developers may want to more conservatively use the percentage of use for the type of child care to be provided. Refer to the pie chart on the preceding page.

**2. PROVIDING A SERVICE TO PROPERTY RESIDENTS—DEMAND FROM NEW HOUSING DEVELOPMENT**

Properties providing housing for working families with children generate additional demand for child care in neighborhoods where the properties are located. According to a 1992 BART commissioned study, for parents with commute distances between home and work greater than ten miles, roughly three quarters of parents with children between the ages of two and five place their children in child care arrangements closer to home despite the fact that only half prefer to do so.<sup>34</sup>

A critical question in determining demand generated by new affordable housing units is:

Will property residents or neighborhood residents qualify?

- Income qualifications for affordable housing and child care subsidies can differ dramatically. Most affordable housing income restrictions in a county are based on the federally defined county income, whereas child care subsidy qualification is based upon the average federal income for Head Start centers and the state average income as of September 2000<sup>35</sup> for state subsidized centers.

<sup>33</sup> Contra Costa Resource and Referral Agency.  
<sup>34</sup> Nelson/Nygaard and Bay Area Economics. *Child Care Feasibility Study for BART: Issues Paper*. May 1992.  
<sup>35</sup> The State legislature has frozen the eligibility for subsidized child care to 75% of the 2000 state median income.

- Income Eligibility requirements differ based on revenue sources, e.g. a family of four in California must earn equal to or less than:
  - \$18,850 per year to receive Head Start services based on the Federal poverty level, which equals 22.76% AMI for Oakland in 2004 and 38.34% AMI in Imperial County.
  - \$39,000 per year to attend a subsidized center or receive vouchers for child care services based on 75% of the 2000 state median income, which equals 47% AMI for Alameda County 2004 and 79% AMI for Imperial County.
- If the property is not yet leased, will the future property residents' child care needs, in terms of age groups served, match the center you are planning—frequently years in advance?

Kidango, a well-established, successful nonprofit child care operator serving neighborhoods across the Bay Area, utilizes the following equation to determine demand generated internally from a rental housing development:

$$\begin{array}{|c|} \hline (1) \\ \hline \end{array}
 \begin{array}{|c|} \hline (# \text{ UNITS} \times (\# \text{ BDRMS} - 1 \text{ BDRM})) \\ \hline \end{array}
 /
 \begin{array}{|c|} \hline (2) \\ \hline \end{array}
 \begin{array}{|c|} \hline 17 \\ \hline \end{array}
 \times
 \begin{array}{|c|} \hline (3) \\ \hline \end{array}
 \begin{array}{|c|} \hline \# \text{ AGES SERVED} \\ \hline \end{array}
 \times
 \begin{array}{|c|} \hline (4) \\ \hline \end{array}
 \begin{array}{|c|} \hline \text{WOMEN'S LABOR RATE} \\ \hline \end{array}
 \times
 \begin{array}{|c|} \hline (5) \\ \hline \end{array}
 \begin{array}{|c|} \hline \% \text{ NEED} \\ \hline \end{array}$$

- Number of children is equal to the total number of units in the development multiplied by the total number of bedrooms (bdrms) utilized by children assuming a household with one child per bedroom not including one adult bedroom without a child.
- Seventeen years of schooling is used assuming every child in a household has equivalent chance of being in each age group.
- Number of ages the center intends to serve. If a center serves preschoolers age two through five, it serves four age groups.
- Women's labor rate represents women's workforce participation.
- For market rate developments, assume 50% of households with children age five and below will require non-relative care. Utilization of subsidized care is higher for affordable housing developments serving low-income families. For affordable housing developments which serve 100% low-income families, assume 100% will utilize subsidized care if they qualify.<sup>36</sup> Mixed-income developments will require the calculation of demand for the market-rate component plus demand for the affordable component. Then take the applicable percentage (50% for market, 100% for affordable) and multiply it by the current utilization rate for the type of child care arrangement. For example, child care centers are 20% of child care arrangements.<sup>37</sup> Therefore, if developing market-rate units, take 20% of 50% of the number of households with children, or if developing affordable units, take 20% of 100% of the number of households with children.

### 3. ADDRESSING AN IDENTIFIED COMMUNITY NEED—DEMAND FROM THE SURROUNDING AREA

During the time lag between development conception and child care center completion, the demand for child care may change. If rental units turn over significantly or there are a large number of property sales, the

<sup>36</sup> The number of households with children can be calculated by totaling the number of units with two or more bedrooms.

<sup>37</sup> Ibid 2. See pie chart earlier in this chapter: Child Care Arrangements of Preschoolers of Employed Mothers.

number of families with children age five and younger may increase or decrease significantly. If there is not much turnover in a neighborhood, children in the current households, which the facility is intended to serve, could age out of the child care facility before it is completed and licensed for enrollment. Since the timeline for real estate development tends to be multiyear, trended projections for birth rates and poverty are useful to estimating future demand in a neighborhood or market area. Birth rates tend to follow a bell-shaped curve over a period of years.

There are several excellent sources of information on birth rates and poverty. The availability of information from these sources will differ from locality to locality.

Sources of demographic data:

- Demand Data—This data will provide a snapshot of demand at a particular point in time.
  - Intermediary organizations.
 

Overall, intermediary organizations are an excellent source of demand data, and they can also provide you with information and contacts for the providers in the area. Local Child Care Planning Councils (LPCs) and Local Resource and Referral agencies (R & Rs) receive some funding from the State to gather and make this information available. LPCs are funded in part to conduct an annual local child care needs assessment. Since R & Rs provide referral for parents on available child care and assist potential providers in the licensing process, R & Rs can tell you how many people have requested referrals, though there may be double-counting. The capacity of intermediary organizations and the availability of data will differ dramatically from county to county.
  - Planning Department.
 

Planning departments often utilize Regional Planning Agency (also called Association of Governments) data and projections for their child care demand analysis. Sometimes, particularly for small areas, it is less time-consuming to get information from a Planning Department than an Association of Government. The Planning Department will also provide this data free of charge; there may be a charge for Association of Governments data from the association.
  - State Department of Finance.
 

This is a secondary source if projections from Census data are not available from either the regional Association of Governments (Regional Planning Agency) or the local planning department. Information is more difficult to access from this source, and the County level is the smallest geographic area offered. However, you can approximate more specific numbers by multiplying the birth rate by the population in the neighborhood census tract. Go to the Department of Finance website (<http://www.dof.ca.gov/>), click on Demographic Information in the left-side bar; click on Projections; then on Historical and Projected Births By County, 1990–2013; and finally on County Birth Projections—2004 Series. Use the zip code and address of the proposed project to find the census tract and population data from the U.S. Census website at <http://www.census.gov/>. The final project can be determined by the following equation:

$$\text{BIRTH RATE} \times \text{POPULATION IN THE CENSUS TRACT}$$

- Trends in Birth Rates & Poverty—This data will provide projections for the future demand based on the assumption that historical trends will hold for the future, e.g., birth rate by ethnic and/or racial group.
- Regional Planning Agency.  
Regional Planning Agency data tends to be the easiest to utilize. To access a directory of Regional Planning Agencies in California, go to [http://www.abag.ca.gov/abag/other\\_gov/rcg.html](http://www.abag.ca.gov/abag/other_gov/rcg.html) and click on your Regional Planning Agency. There may be a charge for up-to-date information from the Regional Planning Agency. Prior to accessing the Regional Planning Agency data, use the zip code and address of the proposed project to find the census tract from the U.S. Census website at <http://www.census.gov/>.  
  
In the San Francisco Bay Area, the Association of Bay Area Governments (ABAG) organizes U.S. Census data, which is available by census tract. Go to <http://www.abag.ca.gov/abag/overview/datacenter/>, then click “Projections 200\_,” then “Census Tract Forecasts for Bay Area Data.”  
  
In Southern California, the Southern California Association of Governments organizes similar data by census tract. Go to <http://www.scag.ca.gov/>, then click onto “Data and Maps,” then “Census Data” or “Planning Data.”
- ED Data.  
ED Data provides information from school demographics on utilization of the free and reduced lunch program and CalWorks participation among parents by school district for the current year and projections for prior years. The projected data is useful for determining the need for subsidized care in a school district. Students who are projected to utilize free and reduced lunch usually will qualify for subsidized care. CalWorks participants always qualify. Ancillary information is also available, such as numbers of students requiring special needs educational programs. Data is available on a state, county, district, or school basis at <http://www.ed-data.k12.ca.us/>. Select District or School, then enter the name of the district or school, select the Students tab, then Special Programs to access the report on utilization of free and reduced price meals.
- Schools.  
The school district’s business or enrollment office (frequently the personnel in charge of welfare and attendance) will often have information on the projected enrollment since school budgets are based on the number of children enrolled. The projected enrollment may be a good estimate of the number of children in the school district. Number of children who require child care can be calculated, using the methods described earlier in this chapter, from the projected number of children that will attend school in the future. Schools can provide useful information but the quality of the data and ease of access varies by district.

#### 4. ACHIEVING CHILD CARE-HOUSING-JOBS BALANCE: DEMAND FROM BUSINESSES AND TRANSIT

Over the last decade, housing-jobs balance has become a shorthand way of describing the Smart Growth principle of locating housing and jobs close to one another in order to decrease commutes to work and minimize impact on agricultural land and/or natural resources in the urban periphery. For working families with children, the availability of child care, like housing, represents an important determining factor to selection of housing and job location.



To determine the demand generated by new housing units, utilize the formula provided in the above section on providing a service to residents.

To determine the demand generated from major employers in the area, contact the employers' human resources departments in order to determine the number of employees that currently have children age five and under. Some workplaces already have projected the future demand for child care for the workplace based on turnover rates, company historical data, and proximity of employees to the workplace. The profile of employees, including the number with children five and under, differs by industry. Some duplication of demand may result from utilizing multiple approaches such as demand from the surrounding neighborhood and demand from significant employers. Bay Area Economics (BAE) recommends that in the absence of site-specific data, assuming a 50/50 split to avoid overestimating preferences for work-based care as a conservative approach.<sup>38</sup> If actual employers cannot be surveyed, BAE recommends using average employee density by type of employment. However, the last known average employment density study was done in 1991, and employment has changed dramatically. Refer to the BAE publication for further information on this methodology.

In the last five years, transportation/transit centers have presented an opportunity to provide child care along major commute lines. The 1991 Nelson/Nygaard/BAE BART<sup>39</sup> commissioned study asserts that 4% of morning peak-hour ridership will require child care services and can be captured by child care center located within a major transit center. Child care centers within transit hubs that are designed appropriately and co-located with some kind of destination retail center or employment center have shown a great deal of promise. However, the experience of these transit center-based child care centers varies significantly. The percentage of ridership captured seems to depend more on the type of and eligibility for services offered by the center and the center's marketing. In 1996, at their One-Year Evaluation, 17% of families at the child care center at Tamien used mass transit as compared to 3% for the county. The child care center at Fruitvale Village serves primarily neighborhood residents and few transit users, but this is probably primarily due to the type of care provided. The Fruitvale Village center houses a part-day Head Start program with very low-income eligibility requirements. Too few of these centers exist to make a recommendation of an approach to estimating demand from mass transit.

## Market Supply

Supply data can be obtained by considering data from the local Resource and Referral Agency (R & R) and Community Care Licensing. Data from these sources will provide the number of licensed child care spaces that exist without accounting for vacancy rate or projects in the pipeline. For example, if the demand average for infants and preschoolers is 500 spaces and the existing supply shows 300 spaces, then the net demand would be equal to 200 multiplied by the vacancy rate. The vacancy rate and reasons for the vacancy rate will tell you if you need to adjust the demand for your planned facility or if a different type of child care arrangement will enable your facility to capture more of the market. Some R & Rs will know generally if there are many or few vacancies and may have heard the reason for the vacancy rate, e.g., quality of care, availability of type of child care arrangement, eligibility criteria, and/or hours of operation. If the R & R cannot provide vacancy data, Kidango recommends applying a 10% vacancy rate for preschoolers and higher for infants and toddlers, to be conservative.

<sup>38</sup> Bay Area Economics. "Linking Development to Child Care: Estimating Demand for Child Care." 2004. BAE, a comprehensive real estate economic analysis and urban development services firm, found that available data regarding locational preferences, e.g., proximity to home or work, for child care vary from 50% to 81%.

<sup>39</sup> Nelson/Nygaard and Bay Area Economics. *Child Care Feasibility Study for BART: Issues Paper*. May 1992.

- Resource and Referral Agency Supply Data

The level of detail will differ from agency to agency. For R & R data, ask for information broken down by the categories of center-based, family day care and exempt care.<sup>40</sup> If data is in aggregate, use the percentages from the child care arrangements data, in the Survey of Income and Program Participation collected by the U.S. Census, to allocate the supply by type of care. For example, 20% of child care demand is currently met by centers; therefore you can take 20% of the aggregate supply and assume that amount of demand is being met by centers. (A contact list of Resource and Referral Agencies is in the Appendix; call the California Child Care Resource and Referral Network at (800) 543-7793 or (510) 882-0234 or search on their website by county at [www.rrnetwork.org](http://www.rrnetwork.org) and click on “local r & r agencies” for the contact information for the agency in your area)

- Community Care Facilities Licensing Supply Data

The local offices or state office of the Community Care Facilities Licensing Division of the Department of Social Services may be willing to calculate the numbers of licensed child care center and family child care home spaces. However, providing supply data to developers is somewhat outside of their typical role as the agency which licenses, conducts compliance inspections and enforces compliance of child care facilities. Additionally, family child care homes are licensed for a variety of arrangements; therefore, the data for family child care homes cannot be relied upon. For example, a family child care home with a large license may enroll up to 12 children with eight preschoolers and four infants but the provider may decide not to enroll infants. A list of the local offices is available at <http://www.cclid.ca.gov/res/pdf/CClistingMaster.pdf>.

<sup>40</sup> Exempt care refers to in-house child care by relatives for two families or less.