The Initial Economic Impact of COVID-19 On South Carolina's Child Care Sector

A CLOSER LOOK AT RURAL COUNTIES

(by)
Megan Carolan,
Director of Policy Research, ICS

In May 2020, the Institute for Child Success (ICS) released a report on survey findings of child care providers from across South Carolina on the economic impacts of COVID-19 on their operations. The child care sector is essential to the health, financial stability and overall well-being of hundreds of thousands of South Carolina families and to our economy as a whole, and we want to ensure the sector is able to weather this storm.

The results of the survey show that, like for many other small businesses, the economic impact for child care centers has been sharply negative. The sector has already experienced approximately $40 million in lost revenue, and about half of all centers have closed.

A few quick facts from surveys responses include:

- One-third of centers cannot financially weather a closure of any length of time.
- Another one-third of centers are unsure how long they could weather a closure.
- Overall, the sector is serving about one-third (30 percent) of the pre-COVID enrollment.
- The average current and projected losses are greater than $50,000 per provider.

The full report is available on our website. This document highlights the specific findings as they relate to select counties in South Carolina which we define as *more likely to be rural*. Providers were asked to report the county in which they were located during the survey, so this is the only geographic unit of measurement available. However, we recognize that the defining an entire county as "rural" or "not rural" is a difficult approximation. We chose to focus this report on those counties which are not among the most populous *and also* do not contain one of the most populous cities in the state, as a rough proxy. The counties defined as "rural" in this report, and their representation in the overall data report, is highlighted following:[i]

County	Percent	County	Percent
Horry	8%	Newberry	2%
Georgetown	6%	Allendale	1%
Kershaw	5%	Clarendon	1%
Berkeley	4%	Jasper	1%
Florence	4%	Oconee	1%
Laurens	3%	Orangeburg	1%
Aiken	2%	Union	1%
Dorchester	2%	Williamsburg	1%

[i] Responses were not received from centers in the following counties: Abbeville, Anderson, Bamberg, Barnwell, Beaufort, Calhoun, Cherokee, Chester, Chesterfield, Colleton, Darlington, Dillon, Edgefield, Fairfield, Greenwood, Hampton, Lancaster, Lee, Marion, Marlboro, McCormick, Pickens, Saluda, and Sumter.

We did expect large response rates from counties with larger child care sectors and child populations. For reference, the counties with the largest share of the state's child care capacity (in terms of available slots) are: Greenville (12 percent); Richland (10 percent) and Charleston (9 percent).[1] However, the six counties that have been removed from the original analysis – Charleston, Greenville, Lexington, Richland, Spartanburg, and York – represented 55 percent of the original respondents on the survey. By removing their responses, we can better isolate counties with lower population densities and more rural communities.

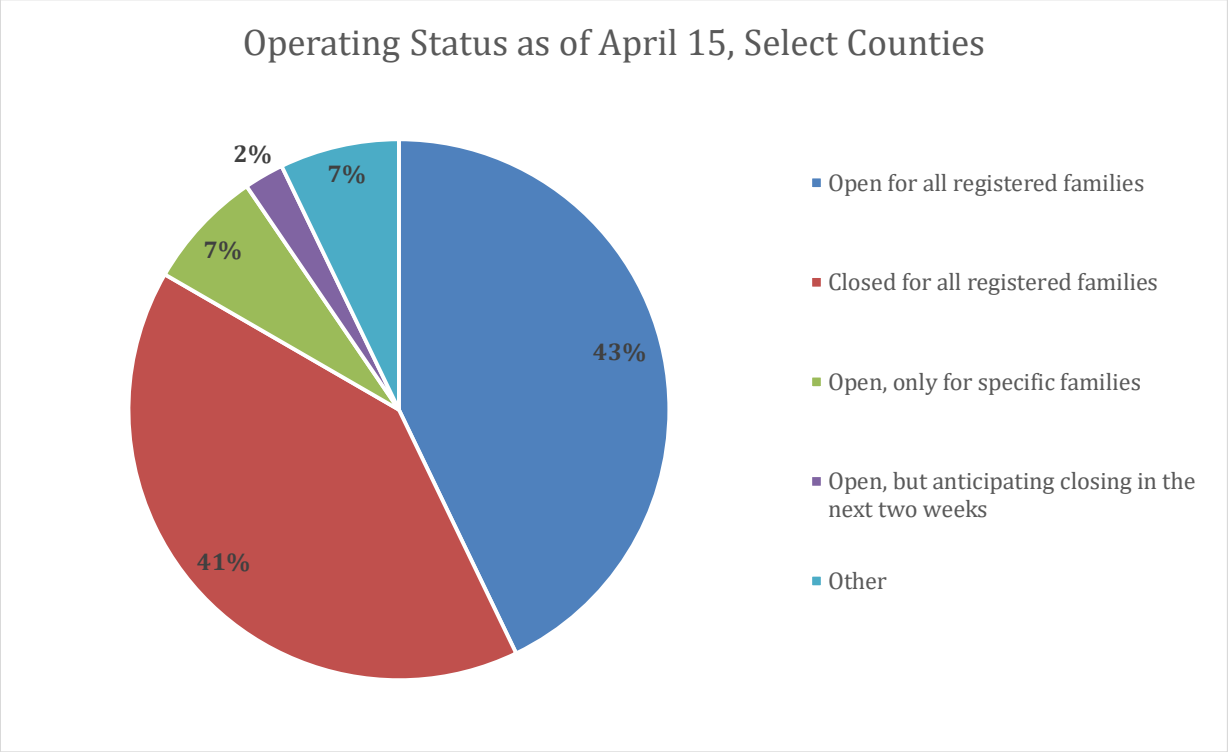
PROVIDER TYPE

Survey respondents were largely group child care providers, and this was true for both rural and non-rural respondent counties – about 75 percent of respondents in either group were child care centers. Faith-based center respondents were more likely to be in rural counties (5 in those counties versus 3 in non-rural); Head Start centers were more likely to be in nonrural counties (all 5 respondents were in non-rural counties).

Different parts of the state have different child care sector landscapes. In sixteen counties, family child care providers make up one-third or more of the total providers; notably, in Abbeville and Jasper counties, more than half of all providers are family child care. We raise these issues to make clear that family child care providers, particularly in those rural counties in which they are more common, may face different issues not fully captured in these responses given the high rate of child care centers represented amongst the respondents. However, family child care centers were only a small part of our respondents in both rural and nonrural counties – only two such respondents in each group. This speaks to the difficulty in connecting with family child care providers to participate in the survey.

FINANCIAL IMPACT ON PROVIDERS

Respondents were asked about their facility's operating status as of April 15. Among the counties in this analysis, the most common status was "open for all registered families" (43 percent), closely followed by "closed for all registered families" (41 percent). Thus, there is no clear trend as to the operating decisions providers make across the board.



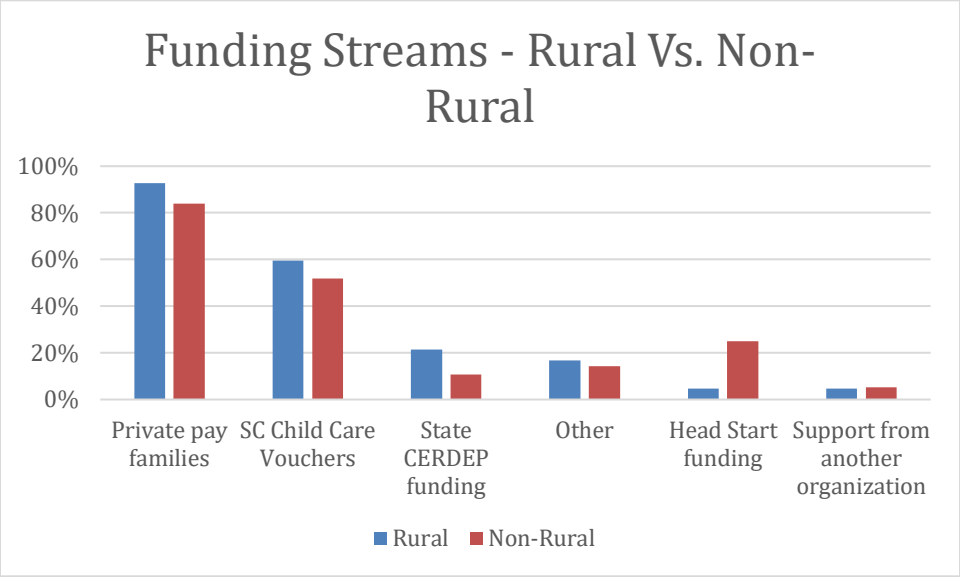
However, there are notable differences between the status in rural counties, versus non-rural. In the 6 non-rural counties excluded from our analysis, the majority were *closed* (54 percent), and only 36 percent were open for all registered families. There could be a number of reasons for this difference. In rural counties, 43 percent were open compared to 41 percent being closed. Providers in rural counties may be more likely to be among a smaller number of providers in a community, and thus feel an obligation to continue providing services as one of the only providers.

Additionally, COVID-19 cases are drastically different across the state (likely based not only on transmission and preventive measures but also population sizes). Information from the South Carolina Department of Health and Environmental Control[2] identifies Richland, Greenville, Charleston, Lexington, and Spartanburg – 5 of the 6 counties we consider "non-rural" as having 2,000 or more potential cases (as of early May 2020). Community stakeholders may make different decisions about operations and precautions based on real and perceived community spread.

FUNDING STREAMS

Providers receive financial support from a number of streams, often blending and braiding from various sources.

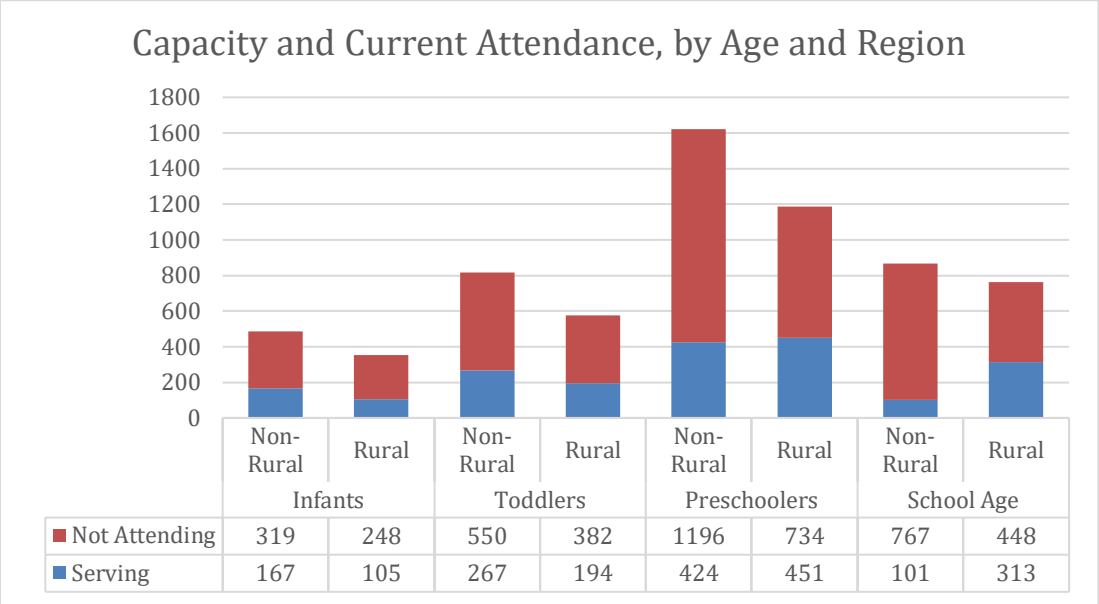
In both rural and non-rural counties, respondents were most likely to report receiving revenue from private pay families though these rates differed – 93 percent of rural respondents compared to 84 percent non-rural. Over half of both sets of providers report the use of SC Child Care Vouchers, with again higher rates of reporting among rural providers.



One area of significant difference in in reporting the use of Head Start funding – a quarter of non-rural respondents reported its use, while only 5 percent reported this in rural counties. This is an important distinction as Head Start funding is a significantly more stable source of funding at this time than are non-government sources, such as private payment. The federal Administration for Children & Families, for example expects that "[g]rantees with closed centers should continue to pay their staff, even while staff are not physically at their offices or centers….Supporting your Head Start staff by continuing to pay them is a critical factor in mitigating the fiscal crisis, recognizing their valuable work and ensuring that staff are in place when services resume."[3] The prevalence of this funding, compared to the volatility of families being able to pay fees, may create stability among its grantees that other centers are missing. Note that SC Child Care Vouchers and state CERDEP funding are also relatively stable funding sources, particularly compared to private payment, and their representation in all state communities is important. Providers were asked simply to indicate their typical funding sources, and not the percent of revenue coming from each source. However, it is clear that centers rely heavily on private payment from families, a source which has been jeopardized through the sudden increase in unemployment and economic uncertainty in South Carolina.

IMPACTED CAPACITY

A provider's capacity and ages served are among the many factors impacting their financial situation at this time. Providers were asked to report their capacity for each of the age groups specified below as well as how many children are currently attending from each group. We specified that this meant children who are actively attending programming, not just those who are enrolled but are being kept home. Our respondents report a capacity to serve 6,666 children across infants, toddlers, preschoolers, and school-age children for afterschool care; however, only about 2,022 children across all ages were still attending, representing just a 30 percent attendance rate.



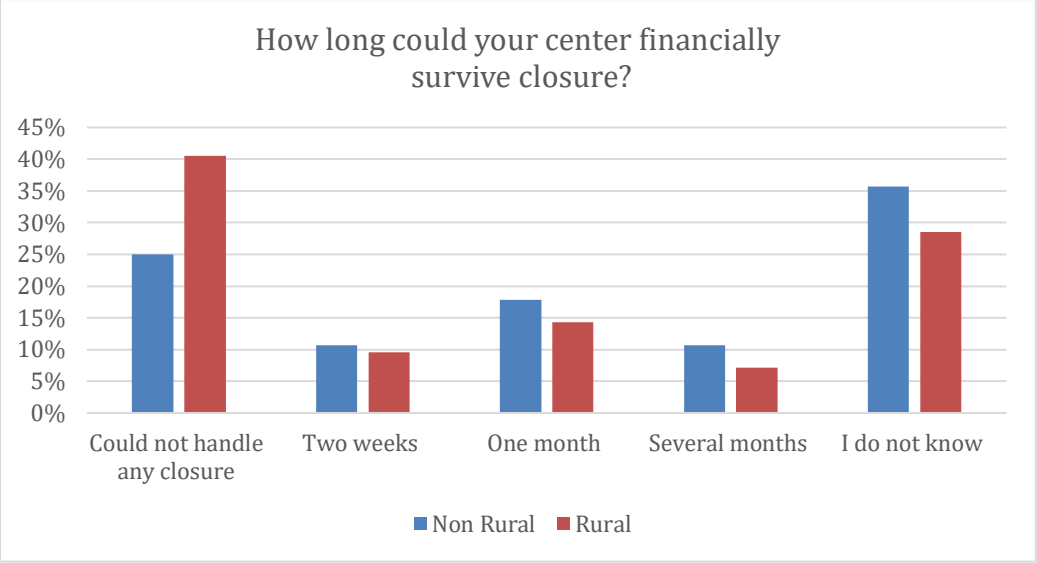
Attendance rates varied notably by child age and the provider's location. The current service rate – the number of children still attending divided by current capacity – was relatively similar between rural and nonrural settings for infants and toddlers. However, these numbers differed significantly for older children. For preschoolers, just 26 percent of those in non-rural counties were still attending; in rural counties, however, 38 percent were still attending. The disparity is even larger for school-age children; in non-rural counties, providers were serving just 12 percent of their capacity for this age range, compared to 41 percent for rural providers. This may initially seem surprising considering that schools are currently closed. However, it likely speaks to the continued need among parents for some degree of care while they engage in employment. While many parents have opted to keep their young children at home even when care is available, there is no doubt that parents, especially those whose work is deemed essential by the state, continue to need care to meet their professional obligations.

It is difficult to determine from the data collected exactly what explains these differences. However, combined with earlier information on closure rates, we know that rural county providers were more likely to still be open than were non-rural providers. This may speak to a continued need for child care services in the community; a concern among providers to avoid closure for fear of not reopening; or a perception that participation is less dangerous in the

counties we have defined as rural which, on the whole, have lower COVID case rates. The biggest unexplained difference, though, is the difference in child participation by age. Younger children are less likely to participate in group care at this time in all settings, but the same is not true of older children.

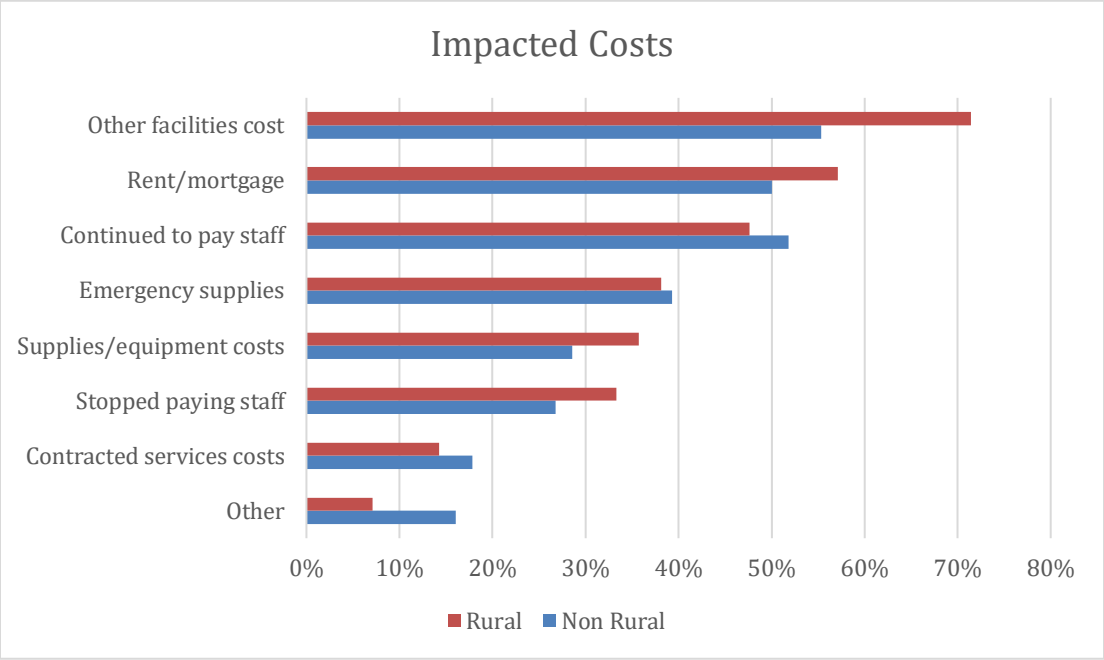
FINANCIAL IMPACTS & PROJECTIONS

Providers were asked how long their center could financially survive a closure – by which we mean, be closed for a specific amount of time and afford to be able to reopen, without additional government or philanthropic assistance. Overall, one-third of respondents report they could not financially weather a closure of *any* length; another one-third of respondents are unsure how long their facility can handle a closure. This may speak to the complex nature of funding streams and expenses in early childhood, as well as the fact that many small child care providers do not have access to accounting services which would allow them to accurately forecast sustainability.



Concerningly, respondents in rural counties had a much higher rate of reporting their business could not handle any closure, with 40 percent expressing this concern. Another 29 percent of rural providers did not know. These leaves just 31 percent of the rural respondents *sure* they could weather a closure of at least two weeks. This raises serious concerns as to whether the rural county providers who close for safety during this crisis will realistically be able to reopen after the crisis, or whether families will be left returning to work without their usual source of care.

While providers may be able to cut some costs related to closing or reducing enrollment, there are many fixed costs which continue. Providers could indicate all that apply:



While rent/mortgage is, as expected, a high concern for providers in both areas, *other* facilities costs, including HVAC, utilities, business insurance, and other costs are actually reported more often – 71 percent of rural county respondents and 55 percent of non-rural county respondents are concerned. For both of these costs related to their physical space, non-rural county respondents were more likely to indicate concern.

Payment of staff is also a widespread concern – about half of providers in both groups indicate they continue to pay staff during closure/reduced enrollment even with reduced revenue, though non-rural respondents were slightly more likely to report this. Notably, though, a higher percentage of rural county respondents indicate that they have stopped paying staff (33 percent versus 27 percent). This creates very real concerns regarding the regional economic impacts in communities where those providers live as well as the facilities' ability to bring back quality staff members when demand is higher.[ii]

Both sets of providers indicated high rates (between 29 and 39 percent) of concern about accessing necessary supplies, though for non-rural providers there was a much higher rate of concern regarding emergency supplies (protective equipment, gloves, etc.) rather than regular supplies such as groceries. In rural response counties, the rates of accessing both emergency and regular supplies were quite similar, suggesting there may be widespread issues related to supply chain for all types of items.

[ii] Note that for both rural and non-rural providers, about 20 percent of respondents did not indicate either option related to staff payment. This could point to preference not to report (more likely if they had stopped payment); uncertainty of how to handle payment at this time; or the fact that this issue was not a top concern compared to others.

ECONOMIC LOSSES

Providers were asked to quantify their financial losses since the beginning of the crisis through April 15, and to project losses from April 15 to May 15. These results were startling. First, only 59 percent of respondents are able to estimate the current impacts, which may indicate some financial management and bookkeeping challenges. The average financial losses reported by respondents are depicted below:

Time Period	All Providers	Rural Counties	Non-Rural Counties
First Month Average Loss	$22,033	$15,571	$26,595
Subsequent Month Average Expected Loss	$31,070	$15,538	$42,235

Average losses are greater for non-rural county respondents and will grow into the second month of this crisis, while rural county providers expect the losses to be about the same month to month. What explains this difference? The primary revenue stream for child care providers is tuition. Non-rural respondents have, on average, about 20 percent more capacity than rural respondents, and yet (as shown above) have lower rates of current attendance. Thus, non-rural providers have counted on tuition coming in from more seats for their operational budgets but have a lower percentage of students attending. While some centers may still be collecting tuition from families, many respondents' families have reduced their payment amounts while centers are closed, or families simply cannot pay and have stopped sending their children or are not paying to "hold" a seat.

ADDITIONAL CONCERNS

Providers were also asked to provide information on other challenges they are facing through an open-ended question to identify additional issues that were not captured in previous questions. Several major trends emerged – they are shared here as bullet points from all respondents (not differentiated by rural/non-rural). A more complete discussion of these concerns can be found in the original report:

- availability of supplies, both specific to COVID-19 and for regular operations
- government relief, and lack of access to available resources
- staffing concerns related to pay, availability, and health and safety
- enrollment uncertainty
- cash flow
- mental toll and uncertainty
- gratitude

About ICS

Launched in 2010, the Institute for Child Success (ICS) is a private, nonpartisan research and policy organization. ICS works to create a culture that facilitates and fosters the success of all children. ICS supports policymakers, service providers, government agencies, funders, and business leaders focused on early childhood development, healthcare, and education – all to coordinate, enhance, and improve those efforts for the maximum effect in the lives of young children (prenatal to age eight). Rather than being a direct service provider, the Institute's approach focuses on helping those who help young children succeed by working with stakeholders to seek holistic solutions to complex early childhood challenges.

References

[1] Calculated from *DSS Find Child Care.* https://www.scchildcare.org/search.aspx

[2] South Carolina Department of Health and Environmental Control. *SC Cases by County & ZIP Code (COVID-19).* May 8, 2020. https://www.scdhec.gov/infectious-diseases/viruses/coronavirus-disease-2019-covid-19/sc-cases-county-zip-code-covid-19

[3] U.S. Administration for Children & Families. (March 31, 2020. Responding to Head Start Grantee Questions on COVID-19: Updated March 31, 2020. https://eclkc.ohs.acf.hhs.gov/physical-health/article/responding-head-start-grantee-questions-covid-19-updated-march-31-2020