Fiscal Research Center
policybrief

July 6, 2016 • Lakshmi Pandey, Sally Wallace and Nicholas Warner

Child Policy Partnership: Opening and Closing of Early Care and Education Establishments

The stability of early care and learning centers is important for understanding the supply of such care. If there is excessive activity in terms of openings and closings of establishments, there may be an impact on children and families as they search for new early care and education. Openings and closings may also signal inexperienced owners, difficult economic situations, costs of regulation and more.

This policy brief documents the opening and closing of early care and education establishments using Georgia Department of Labor Quarterly Census of Employment and Wages (QCEW ES202) data. These data report quarterly wages paid to employees by establishments. Addresses are included for the establishments. These data are well suited to measure rates of openings and closings for specific industries, including early care and education.

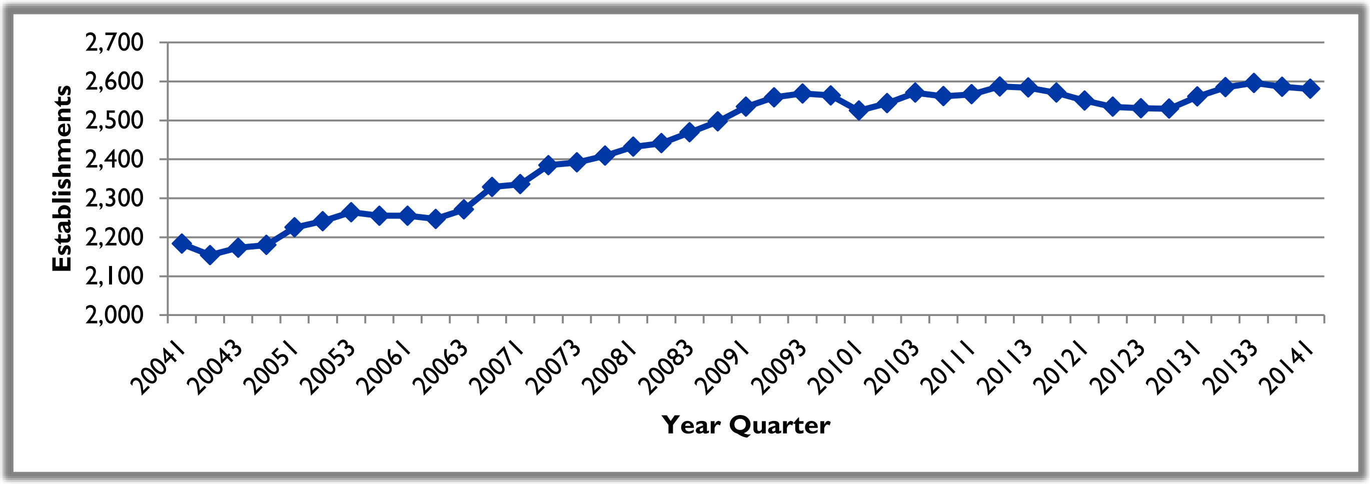
It is not possible to determine if there is churning in terms of establishments closing and re-opening under a different name. Churning may happen due to an ownership change or rebranding of an establishment. Churning is likely to have different impacts on children and families relative to a full closing, which reduces the supply of early care and learning in a geographic area for an extended period of time. Churning also may have less to do with poor business practices and regulation than full closings.

For the purpose of this brief, early care and learning establishments are most closely defined in our data by North American Industry Classification System (NAICS) codes 62411 (child and youth services) and 62441 (child day care services) and correspond to early care and education provider locations. The establishments included in our data are those reporting wages paid — or what might be called formal sector establishments (including all funded Pre-K programs). Figure 1 presents a time trend analysis of the total establishments in these two NAICS codes from the first quarter of 2004 to the first quarter of 2014. As seen in Figure 1, the general trend in terms of the total number of establishments reporting wages is positive since late 2004 from 2,154 establishments to 2,581 in 2014. There was a marked decrease in reporting establishments in 2010 following the onset of the Great Recession. Since the first quarter of 2010, the growth in the number of reporting establishments has slowed. In the first quarter of 2010, 2,525 establishments were reporting and in 2014, there were 2,581—representing very little net growth in the number of reporting establishments.

Figure 2 reports the number of employees (and seasonally adjusted number of employees) and the number of establishments, using the first quarter of 2004 as the base period with an index of 1. In any year, if employment or the number of establishments is greater than 1, this represents an increase relative to the base period of 2004 quarter 1. As is seen in the figure, employment and establishments are greater than the base period from 2005 onward. This means that generally, after 2004, early care and learning employment and number of reporting establishments are greater in each period than they were in the first quarter of 2004. However, there are quarters in which employment and the number of establishments declined from

Georgia State University | Andrew Young School
Fiscal Research Center

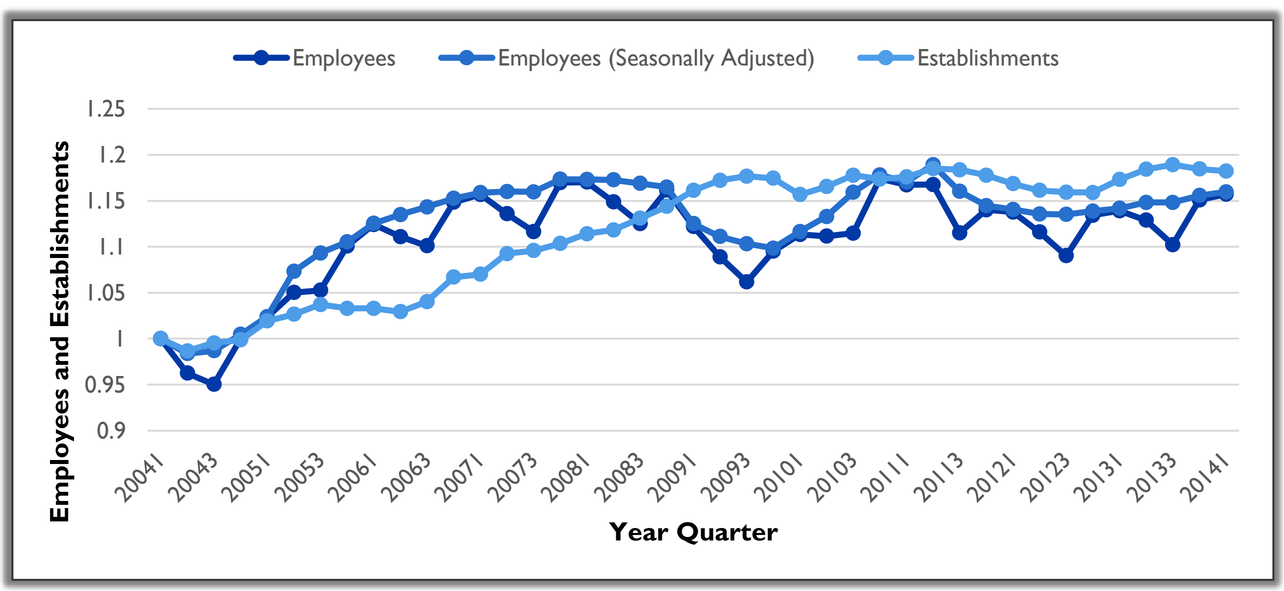
Figure 1: Total Establishments in NAICS 62411 and 62441



a previous quarter. For example, in the first quarter of 2010, the index for establishments is 1.157, but it was 1.17 in the fourth quarter of 2009.

The number of employees reported is affected by a seasonal trend. In the third quarter (which includes summer months) there is often a reduction in the number of reported employees. The seasonally adjusted line smooths this pattern. One of the most interesting observations to be made from Figure 2 is that during the Great Recession, the decline in the number of employees (first quarter 2009) preceded the decline in the number of establishments (first quarter 2010) and was a larger percentage change.

Figure 2: Employees and Establishments



It may be that establishments were trying to hold onto their businesses in part by reducing staff, which could have slowed the reduction in establishments compared to the reduction in employees. Since the recession, it is also interesting to note that the indexed number of employees remains below the same index for establishments. This was not the case from 2005 to 2009 when the relative growth in employees outpaced establishments. This appears to indicate that leading up to the recession, a period of economic growth, the number of employees was growing faster than establishments. Since the recession, the opposite has been true. The number of employees has been shrinking faster than the number of providers.

Further disaggregated detail regarding employment and establishments is provided in Table 1. The number and size (measured by number of reported employees) of establishments opening before 2009 was larger than those closing. In 2009, this pattern changed, and the number of employees of closing establishments was greater than for opening establishments. As a percent of reporting establishments, after 2004, the percent of closures is relatively stable, with an annual average of closures equal to 11.7 percent of total reporting establishments. The same is not true for openings. Until 2008, openings were about 15.5 percent of total reporting establishments but that has fallen to approximately 8.5 percent.

Another important trend to note is that closings and openings (as reported in these data) are closely, positively correlated. That is, when closings increase, openings also increase. The gap between openings and closing has narrowed considerably since 2008. This is evidence (not definitive) of churning — closing a business under one name to open under another. The average number of employees in the closing establishments at the height of the recession and its aftermath (2009-11) is 9.08 while those opening is 10.2. The average for the total establishments during that time is 14.7.

Table 1. Early Care and Learning Establishments and Employees, Georgia

YEAR	TOTAL		STARTING		CLOSING	
	ESTABLISHMENTS	EMPLOYEES	ESTABLISHMENTS	EMPLOYEES	ESTABLISHMENTS	EMPLOYEES
2004	1,969	30,308	195	1,844	135	1,535
2005	2,210	34,199	371	4,527	269	2,977
2006	2,286	36,619	347	4,130	260	3,695
2007	2,400	37,551	376	4,904	334	4,051
2008	2,431	37,472	368	4,209	265	2,641
2009	2,464	35,486	299	2,461	321	2,795
2010	2,442	36,321	291	3,016	256	2,809
2011	2,473	36,711	289	3,444	288	2,174
2012	2,400	35,896	213	1,947	243	2,106
2013	2,345	35,399	196	1,702	291	2,094

Source: GA DOL QCEW data

The data in this brief provide an overview of the dynamic of openings and closings of early care and learning establishments. There is some evidence that the Great Recession changed the nature of the business in terms of the growth in the number of establishments and establishment size. Openings and closings are closely correlated, but it is not possible to determine if this is definitive evidence of churning. More detailed matching by physical location of the establishments may help to shed light on the churning hypothesis.

About the Authors

Lakshmi Pandey is a senior research associate with the Fiscal Research Center. He specializes in working with administrative data and also provides analytical and technical support on research projects, such as welfare to work, the Supplemental Nutrition Assistance Program and unemployment insurance for U.S. Department of Agriculture, census data analysis, geographical information systems, incorporation and cityhood studies, and many others. He received his doctorate from Banaras Hindu University in India and has worked at Washington State University and State University of New York at Buffalo prior to Georgia State University.

Sally Wallace is associate dean of research and strategic initiatives, professor of economics, and director of the Fiscal Research Center of the Andrew Young School of Policy Studies at Georgia State University. She is also Extraordinary Professor for the African Tax Institute, University of Pretoria, Republic of South Africa. Her previous positions include provost and associate vice president of the International University of Grand Bassam, resident chief of party of the GSU/USAID Tax Reform Project in the Russian Federation, fiscal economist at the U.S. Department of Treasury, and chair of the Georgia State University Department of Economics. Wallace's areas of expertise include behavioral aspects of domestic and international taxation, evaluation of public programs, and fiscal decentralization.

Nicholas Warner, a research associate at the Center for State and Local Finance at Georgia State University, specializes in education finance. His recent research has focused on school district expenditure and revenue portfolio analysis, tax expenditure estimation, examination of Georgia's special option sales tax for school facility funding, and school districts' responses to the Great Recession. His work has been published in the Journal of Education Finance as well as by the Georgia Department of Early Care and Learning. Warner received his master's degree in economics from the Andrew Young School of Policy Studies.

About the Fiscal Research Center

Established in 1995, the Fiscal Research Center (FRC) provides nonpartisan research, technical assistance and education in the evaluation and design of state tax and economic policy. FRC's responsibilities include developing estimates for tax-related fiscal notes, writing the Georgia State Tax Expenditure Budget, supporting the state's economist, and conducting policy and academic research on a variety of topics associated with state tax policy issues.

FRC reports, policy briefs, and other publications maintain a position of neutrality on public policy issues in order to safeguard the academic freedom of the authors. Thus, interpretations or conclusions in FRC publications should be understood to be solely those of the author(s).

For more information on the Fiscal Research Center, visit our website at: frc.gsu.edu.

ACKNOWLEDGMENTS
Produced in conjunction with the Economic Impact of Early Care and Education Industry in Georgia, a collaboration between the Andrew Young School of Policy Studies, the Fiscal Research Center and UGA's Carl Vinson Institute of Government. Funding provided by DECAL: Georgia Department of Early Care and Learning.