



## SCANNING THE EARLY CHILDHOOD DEVELOPMENT LANDSCAPE IN SOUTH DAKOTA

By Ben Horowitz and Kayla Williams

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### *A brief exploring data on South Dakota's children and the state's child care market*

Most of South Dakota's infants, toddlers, and preschoolers live in homes where all the adults are in the workforce.<sup>1</sup> Tens of thousands of households across the state thus face a simple question nearly every day: Who will care for children while the grown-ups are at work?

Their answers are determined in part by the state's early childhood development landscape, which includes child care providers and assorted programs supporting the health and well-being of children and their parents.

Children's futures are profoundly impacted by the care options their parents choose. Supportive, enriching environments facilitate brain development during childhood and are linked to positive outcomes later in life.

This brief explores data on young children in South Dakota. Where can children go when their primary caregivers are at work? What programs and policies are in place to support children and their working family members? And, most important, why does it all matter? We first examine the science on early childhood development and then present data on South Dakota's families, child care market, and child-care-related public policy. We conclude with potential actions for consideration by the state's policy, business, and community leaders.

#### ARTICLE HIGHLIGHTS

- Most children in South Dakota live with working parents
- Many parents have low income relative to child care tuition and face limited access to licensed care
- Data on child well-being reveal important considerations for state policymakers

## Why early childhood development matters

Research in the fields of neuroscience and developmental psychology strongly suggests that the course of a child's life is significantly influenced by their earliest experiences. Stable, nurturing environments can prepare children for academic success and support their socioemotional growth. This research dovetails with economic studies showing that there is a substantial public return on investment when societies invest in high-quality learning and development services for young children from families with low incomes.



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### The developing brain and economic gains

Neuroscientists and developmental psychologists have studied the early experiences that help children thrive. They find that stable and nurturing caregiver-child relationships, language-rich environments, and encouragement to explore through movement and senses are connected to beneficial brain development.

On the other hand, failing to foster a positive environment can pose significant barriers to healthy brain development. Research connects adverse childhood experiences and toxic stress to later behavioral and emotional problems in childhood. Adversity early in life is also closely associated with mental and physical health difficulties in adulthood.<sup>2</sup>

The stakes are high. Differences in early experiences show up in academic performance measures for children before they enter the kindergarten classroom. For example, in one research study, children from high-income backgrounds showed nearly twice the vocabulary of children from lower-income backgrounds by the age of three.<sup>3</sup> These gaps linger: data show that the academic gaps older children display are similar in size to those displayed among kindergarteners.

### Returns on investment

Studies of high-quality early childhood development interventions repeatedly demonstrate returns for participating children and their families, including better economic and physical well-being. Some studies in places ranging from small cities and towns in [Michigan](#) and [North Carolina](#) to urban environments like [Tulsa, Oklahoma](#), and [Chicago](#) go further, demonstrating measurable economic returns to the public on such interventions.

Depending on the program, economists estimate the public investments in targeted high-quality early childhood development programs can [outpace gains in the stock market](#). Among other things, these returns derive from savings to the criminal justice and education systems, reduced spending on the social safety net, and increased tax receipts from program participants' higher earnings.

For example, children participating in any of several high-quality early learning opportunities were less likely to be convicted of a crime as an adult. An individual committing a crime imposes costs on victims and on the criminal justice system. Thus, if an early learning intervention reduces criminal behavior, the resultant savings can offset the cost of that intervention.

## What about fadeout? The importance of program design and quality

Some studies suggest a “fadeout” effect—that is, the benefits of enriched early learning diminish over time. However, data on high-quality interventions strongly contradict that assertion. A large, rich body of evidence points to long-term resilience in the gains children make, as measured by high school graduation, healthy behaviors, and long-term economic outcomes like household income.<sup>4</sup>

Importantly, not all early childhood interventions are created equal. A growing number of studies identify the key components of successful investments in young children. For example, early childhood education efforts that also [engage a child’s primary caregivers](#) have a track record of success. Researchers are exploring ways schools can facilitate a successful transition from high-quality early childhood environments to K-12 classrooms.

In a return-on-investment framework, successful early childhood interventions also focus on offering access for children who would not otherwise receive the same services. For example, if a child’s parent is already paying for them to attend a high-quality learning program, subsidizing that child’s tuition or enrolling them in universal pre-kindergarten is unlikely to yield the same economic gains for the public.

## Child care and the economy

In the long term, high-quality early education supports many of the skills most appealing to employers, including mathematical and verbal abilities, critical thinking, impulse control, and teamwork. In the shorter term, child care is also crucial for working caregivers.

Almost three of every four [South Dakota children under the age of six](#) had all parents or caregivers in their family participating in the labor force in 2019. The rate for this statistic in South Dakota is 6 percentage points higher than [the national rate](#).

Depending on where they live and the types of child care they have access to, the families of these 51,000 children will face a market rate for full-time child care for each toddler or infant that ranges from [\\$5,200 to \\$8,700](#) per year. For many South Dakota households with young children, that’s a huge expense relative to income: about 44 percent of South Dakota children under the age of six live in a household with an income below 200 percent of the federal poverty guidelines.<sup>5</sup> For a single parent with one child, that threshold [translates to about \\$34,500](#).

The cost of tuition is high but still leaves many child care providers operating on very thin margins. Child care staff often earn low wages with few benefits as a result. In 2019, the median wage for a child care worker in South Dakota was \$10 per hour.

The state of the child care market impacts family incomes and employers’ bottom lines. Adequate access to care and programming gives parents the opportunity to enter the workforce and retain jobs. On the other hand, a lack of child care options can increase employee turnover and absenteeism, thus depressing productivity. These two issues alone cost businesses across the country \$13 billion annually.

Some studies show the state-level impacts. For example, an analysis based on a recent survey of parents in Montana found that families could expect to [lose an average of about \\$5,700](#) annually due to complications with child care. Overall, [an analysis of the survey](#) found that parents lost \$145 million, businesses lost \$55 million, and state and local governments lost \$32 million because of child care-related issues in 2019.

## Data on South Dakota’s children and child care providers

This section will explore data on children and child care providers in South Dakota. This information is all intended for consideration in the context of the earlier-presented evidence on the importance of early childhood development for children, families, and the economy. Further details are provided in Appendix A.

### Economic status and race of children in South Dakota

About 62,000 children under the age of five live in South Dakota. Though the state’s population is currently 82 percent White, demographic data forecast a more racially and ethnically diverse future. Nearly a third of the state’s children under the age of five are Black, Latino/a, American Indian, Asian, or another non-White, non-Latino/a race or ethnicity. That means the state’s youngest children are about half as likely to be White compared to the state’s adults.<sup>6</sup> About 8 percent of the state’s children live with a parent who is an immigrant to the U.S., while about 5 percent of the state’s population older than age 18 were born outside of the U.S.<sup>7</sup>

Although 76 percent of the children under the age of six in South Dakota live in a household where all the adults are engaged in the labor force, 44 percent of children under age six still live in families with economic resources that place them below 200 percent of the federal poverty line. That’s 1.5 times the rate of adults older than age 25 living below the same poverty threshold.<sup>8</sup> Children in the state are also 1.6 times as likely to [experience food insecurity](#), by one estimate.

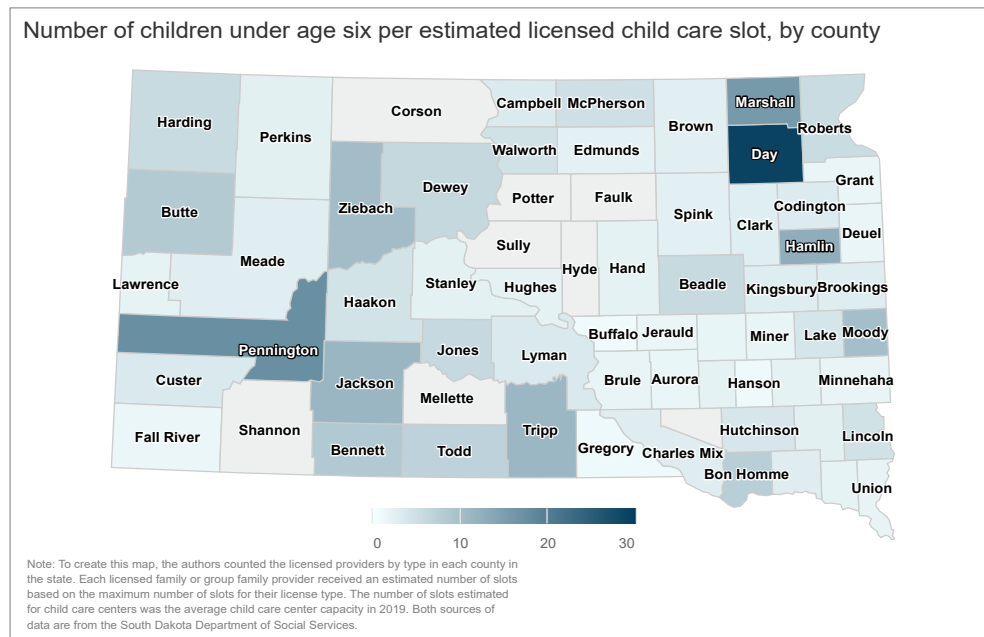
The federal poverty line is just one measure of the resources families need to make ends meet. Economists have developed estimates of a “living wage” that reflects the typical costs of living, adjusted for geographic variations in the price of basic necessities. [In one widely used model](#), the living wage in South Dakota is about \$46,000 for a single parent with a child—substantially higher than the \$34,500 figure for a comparable household at 200 percent of the federal poverty guidelines.

### Child care providers in South Dakota

As in the rest of the nation, South Dakota’s child care providers derive [most of their operating revenue](#) from parents’ private tuition payments. The child care sector is thus populated by providers who must find a viable business model to sustain operations long-term [under challenging conditions](#). For example, successful child care businesses must operate allowing for the fact that parents have [relatively low incomes when compared to the cost of providing care](#). Innovations in providing care are limited by the simple fact that one adult staff member can only care for so many children at once.

[By one estimate](#), about 2,700 child care providers served children in South Dakota in 2018. Only about 750 of these were licensed or registered with the state. Registration is voluntary for providers serving 12 or fewer children; registered providers may receive public funds and [must meet certain state standards and requirements](#). The 750 licensed or registered providers represented about half of the total estimated child care capacity in the state.

Licensed providers are not evenly distributed throughout the state of South Dakota. The map below estimates the number of children under age six per registered or licensed care slot by county, based on data acquired from the state’s licensing portal in August 2020. In most counties, there are more than two children for every licensed child care slot. In some counties, there are no registered or licensed providers at all. The numbers include the licensed child care slots that are reserved for school-age children; in other words, this map understates the scarcity of slots available for infants, toddlers, and preschoolers.



### Impact of COVID-19 on child care in South Dakota

As of this brief’s release, South Dakota had not imposed strict health-related limitations on child care facilities related to COVID-19. It only recommended that these facilities follow Centers for Disease Control guidance. While there was not a formal mandate that child care operators adopt the health and safety changes, many child care programs did anyway. For many providers, the pandemic meant significant operational changes and decreased revenue. Interviewees from the field said many centers were voluntarily limiting class sizes, and that in other cases, parents were keeping their children at home.

Certain aspects of child care business models compound pandemic-related revenue declines. For example, reducing group sizes for toddlers and preschoolers limits child care centers’ ability to offset the high cost of providing care for infants.<sup>9</sup> In addition to capacity reductions, child care centers face significant logistical barriers when moving to distance learning, especially those serving students with developmental and physical difficulties.

South Dakota’s licensing regime may have limited its ability to reach out directly to providers during the pandemic. Because the state only licenses or registers about 750 of the estimated 2,700 providers operating in the state, it would not be able to contact the remaining providers to inform them about opportunities to apply for pandemic relief, nor could it track the match between child care providers that are open and essential workers who need to find child care.

### Other data on South Dakota’s children

Appendix A to this document contains more details on South Dakota’s children, drawn from a number of sources.

## Supports for families with young children

Some families in South Dakota are able to access programs that reduce the cost of child care, or provide free early childhood education. This section focuses on two of the largest programs—the Child Care Assistance Program and Head Start. Appendix B details some other state and local supports for families with young children.

### Subsidized child care: South Dakota’s Child Care Assistance Program

Every state receives an allocation to subsidize child care for families with low incomes via the federal Child Care and Development Fund (CCDF). In South Dakota, the CCDF money primarily funds the state’s Child Care Assistance Program (CCAP). In the state’s fiscal year 2020, about two-thirds of CCAP’s [roughly \\$22 million budget](#) was funded by federal dollars. The rest was funded by the state’s general fund and other resources.

In South Dakota, the cutoff for income eligibility for CCAP is, for most families, [set at 209 percent](#) of the federal poverty guidelines. There are [other eligibility requirements](#), mostly related to parental participation in the workforce. The program serves children through age 12. Parents choose a child care provider that [meets the state’s criteria](#), which incorporate formal and informal child care situations and can include before- or after-school programs for older children.

About 41 percent, or [roughly 58,000](#), of the children in South Dakota under age 12 live in families at or below 200 percent of the federal poverty level.<sup>10</sup> CCAP [serves about 3,600 children living in about 2,000 families](#). In other words, CCAP serves about 6 percent of children who are potentially eligible based on their families’ income.

Parents earning more than 160 percent of the federal poverty guidelines contribute a copayment to CCAP. As parents earn more, the copayment gradually increases, and for parents earning 200 percent or more of the federal poverty guideline, that copayment is 10 percent of a family’s income. [For example](#), a single parent with one child would not have a copayment if they earned \$27,500, which is just below the 160 percent threshold. If that same parent earned \$35,000, however, their annual copays would increase to \$3,500, or about half of their pre-tax increase in earnings.

Aspects of CCAP may limit parental choice in the child care market. Child care providers are not required to accept children whose care is subsidized by CCAP, and certain complexities [providers have pointed to](#) can make CCAP unattractive to them, discouraging the providers’ participation in the program and potentially limiting parents’ options for child care. For example, the level of reimbursement paid by South Dakota to a child care provider on behalf of a family may not fully cover the cost of caring for that family’s children. In such cases, providers can require families to pay for the difference between the full cost of care and the subsidy. Such disincentives for providers may limit the child care options available to families that earn low wages.

### Subsidized child care: Head Start and Early Head Start

Head Start is a federally funded program providing early childhood development opportunities to families with children from before birth up to age five. Families can be eligible if they earn less than the federal poverty guidelines; Head Start programs can serve a limited number of families that earn more.

Head Start provides a mix of services for families, including partial-day early childhood education. The program serves about 4,000 three- and four-year-olds in South Dakota. In fall 2019, about 950 children were on a wait list for Head Start services. Because of funding limitations, enrollment is much lower for younger children. Early Head Start, which serves children younger than three, enrolled about 1,600 children in 2019.

## Policy considerations

Data show that [a higher share of South Dakota parents are working](#) than in many other states. When those parents search for quality child care, they face several obstacles. South Dakota does not license or register most child care providers, as noted above, and it has no state-based system for rating the quality of care. As a result, parents must often enter a child care market with little information about providers and how they compare to one another. The data also show that many working parents would still struggle to afford high-quality child care, particularly for young children.

For their part, child care providers in South Dakota operate in a market with tuitions that often challenge parents' ability to pay. The relatively high costs for parents do not translate to high wages for child care workers or a lucrative market for child care services.

Taken together, the research on child development and the data on the state's children and child care market underscore some key considerations for the state's policymakers:

- **Establishing new systems and conducting research regarding the child care industry would support efforts to increase the supply and quality of child care in South Dakota.** For example, South Dakota is one of six states without a Quality Rating Improvement System (QRIS). QRISs generally rank providers' incorporation of research-backed approaches to support child development and can inform parents' choices as they seek care for their child. Child care leaders in the state could also undertake research to understand why the state's CCAP program only reaches a fraction of the income-eligible families, or better understand the costs of providing high-quality child care in South Dakota's unique child care markets.
- **Creating multi-sector advisory bodies for child care policy would allow policymakers to leverage the expertise of the business, health care, and nonprofit sectors.** Many states feature such advisory bodies, supported by philanthropic and public dollars. Advisory bodies can manage pilots for early childhood education initiatives, play a role in informing policymakers on approaches to boost the supply of quality child care, and raise awareness among the general public on the importance of high-quality early childhood development opportunities for the economy as a whole.
- **Building on the state's existing subsidies for child care would increase access to high-quality care for low-income children.** CCAP is tied to parental labor force participation; fluctuations in the job market could put a child's stable, nurturing relationship with their child care provider at risk. Alternative models, including some like the local Strong Starts initiative in Rapid City or early learning scholarships in Minnesota, may layer on top of or provide an alternative to CCAP-style programs by focusing eligibility with the sole goal of providing low-income children access to high-quality care.
- **Requiring registration or licensure of more child care providers would better facilitate interventions aimed at increasing the quality of child care or otherwise supporting the sector in the state.** For example, [during the COVID-19 pandemic](#), the federal government and many states offered financial supports for small businesses, including some specifically for the child care sector. The State of South Dakota would likely have a hard time reaching out to more than half of the child care capacity in the state to promote these resources, because those child care providers are not registered.

- **Including leaders from Native American, immigrant, and communities of color in conversations about the best way to serve the state’s children and families would ensure decisions reflect the state’s racial and ethnic diversity.** Regardless of the path policymakers in the state may take toward strengthening the state’s early childhood development sector, any new investments or supports for families with children are much more likely to succeed if they incorporate stakeholders that reflect the state’s increasingly diverse population.
- **Pursuing other early childhood interventions would promote the well-being of children, families, and the state as a whole.** High-quality early childhood education is not the only support for young children and their families with a proven track record. Nurse home visiting improves the health of infants and their mothers, and has also been connected with a public return on investment.

These considerations can guide efforts to bring more resources to South Dakota’s children, or to make existing programs and services more effective. Improved or new resources would represent an important investment in the state’s economy.

## ENDNOTES

- <sup>1</sup> [KIDS COUNT Data Center](#).
- <sup>2</sup> See, for example, [Insights into Causal Pathways for Ischemic Heart Disease: Adverse Childhood Experiences Study](#) or [The Relationship of Adverse Childhood Experiences to Adult Medical Disease, Psychiatric Disorders, and Sexual Behavior: Implications for Healthcare](#).
- <sup>3</sup> Center on the Developing Child at Harvard University, [The Foundations of Lifelong Health Are Built in Early Childhood](#), July 2010.
- <sup>4</sup> For more on this, see our February 2016 article [“Sustaining early childhood education gains.”](#)
- <sup>5</sup> Authors’ calculation based on 2015–2019 American Community Survey data.
- <sup>6</sup> KIDS COUNT Data Center, [“Child Population by race and age group in South Dakota”](#) and [“Adult population by race in South Dakota.”](#)
- <sup>7</sup> Authors’ calculations based on the American Community Survey.
- <sup>8</sup> Ibid.
- <sup>9</sup> For an example of how pandemic limitations can impact providers’ revenues, see our June 2020 article, [“How a COVID-19 10-person group limit affects Minnesota’s child care providers.”](#)
- <sup>9</sup> See endnote 7.

### CONTACT

Ben Horowitz: [benjamin.horowitz@mpls.frb.org](mailto:benjamin.horowitz@mpls.frb.org)

### MORE INFORMATION

For additional early childhood development resources from the Minneapolis Fed, visit [minneapolisfed.org/topic/early-childhood-development](https://minneapolisfed.org/topic/early-childhood-development)

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