THE Ford Family FOUNDATION

Child Care in Rural Oregon:

Bold Approaches to Address Systemic Inequity and Rebuild Child Care

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ABOUT THIS ISSUE BRIEF:

This issue brief investigates the economic impact of state policies that affect rural children and their families. It also reviews the challenges of operating a financially viable child care business in rural Oregon.

With its long history of commitment to early childhood education, The Ford Family Foundation wanted to better understand the challenges facing child care service providers in rural Oregon. In late 2020, The Ford Family Foundation contracted with Louise Stoney, a national child care expert, to research the issues and make recommendations on how best to address them. This report is the result of her research.

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In 2019 the Center for American Progress reported that 90% of Oregon was in a child care desert (an area where there is only one child care slot for every three children who need care). Then the COVID-19 pandemic hit, child care centers closed down, and many have yet to re-open. Child Care Aware of America estimates that Oregon's statewide child care capacity has declined by about 22% since March of this year, with the largest decline occurring in the highest quality settings, where availability has dropped by over 45% during the first six months of 2020.[i]

Leaders across the state and nation are deeply concerned about ensuring that Oregon's children receive high-quality early education, and that hard-working Oregon families have the child care supports they need to succeed. Many of these leaders have joined the Center for American Progress in calling for industry recovery via a multi-faceted approach that underscores many of the key issues raised in this paper, including the need for:

1. **Cost-Based Reimbursement Rates**
2. **Lower Family Co-Payments**
3. **Stable and Consistent Funding, based on enrollment, and administered as slot contracts**
4. **Support for provider networks structured as Shared Services Alliances**
5. **A Regulatory Framework appropriate for small sites, like micro-centers and learning hubs**

These are important steps forward for the State of Oregon, but they are crucial for rural areas of Oregon, where the systemic inequity and COVID-19 have threatened the sustainability of child care. This issue brief will explore each step through the lens of rural Oregon.

Cost-Based Reimbursement Rates

Efforts to increase the level of funding available to center- and home-based child care have historically been based on market prices, based on the belief that "market rates" are an accurate proxy for cost. This is not the case—especially in rural Oregon. The table below illustrates a pattern observed in many states across the United States—that market prices are more likely to reflect regional incomes than provider cost. **Table 1** demonstrates that the median family income in Multnomah County (Portland) is almost double that of Coos County (Bandon). Child care market prices correlate with this increase; prices (expressed as the 75th percentile) in Multnomah are more than double those in Coos County. While the price of child care can vary widely between these urban and rural areas, the cost of delivering child care services does not appear to vary significantly.

The wages paid to child care center staff are by far the largest cost driver in most programs; thus, a comparison of wages will indicate a likely cost differential. U.S. Bureau of Labor Statistics data indicate that the mean wage of a child care teacher in Coos County is about 94% of the wage paid to that same teacher in Multnomah (**Table 1**.) Most non-personnel costs do not vary by region; the cost of utilities, liability insurance, supplies, equipment and so forth do not typically vary by region. And while the cost of purchasing or renting a child care facility may vary by region, the fact that child care program facility costs are very idiosyncratic—with many programs housed in donated or below-market space irrespective of location—makes this data comparison moot as well. In short, the strongest predictor of the price of child care is the wages of families that purchase the care (child care customers) not the cost of delivering the service. Thus, when public reimbursement is based on the price of child care, it simply mirrors, and perhaps enhances, this systemic inequity.

Table 1

Location (County)	Median Household Income (census, in 2018 dollars)	Annual Child Care Market Price 2018 Infant (@75th%)	Annual Child Care Market Price 2018 Preschool (@75th%)	Annual Early Childhood Education Teacher Salary[3]
Multnomah	**$71,186**	**$18,864**	**$14,652**	**$30,970**
Coos	**$39,110**	**$9,780**	**$7,380**	**$28,990**

How Does The Oregon Department of Human Services (ODHS) Establish Child Care Reimbursement Rates?

- **Every two years a Market Price Survey is conducted by Oregon State University to gather data on what providers charge for child care.** Data are collected by county and then grouped into three or four clusters—counties with similar prices—for purposes of rate setting.
- **A Rate Ceiling—capped at the 75th percentile of the county market price—is established for each rate cluster and age group.** The 75th percentile is the rate at or below which at least 75% of the providers in a rate category charge.
  The Rate Ceiling is the maximum amount a provider can be paid. However, the amount providers actually receive from the state (the State Share) is: *What the provider charges (their tuition) capped at the 75th percentile rate ceiling; minus the family co-payment established by the state, which will vary based on the family income.*
- **ODHS requires that parents pay a portion of the tuition, and establishes co-payments based on income and family size.** The required co-payment for a single mom with one child and an annual income of $30,000 is $618 a month, and for a single mom with one child and an annual income of $16,900 is $160 a month. (Co-payments are slightly lower for parents that choose higher-quality care). Unlike the rate ceiling, which varies by county, family co-payments do not vary by location but are the same across the state.

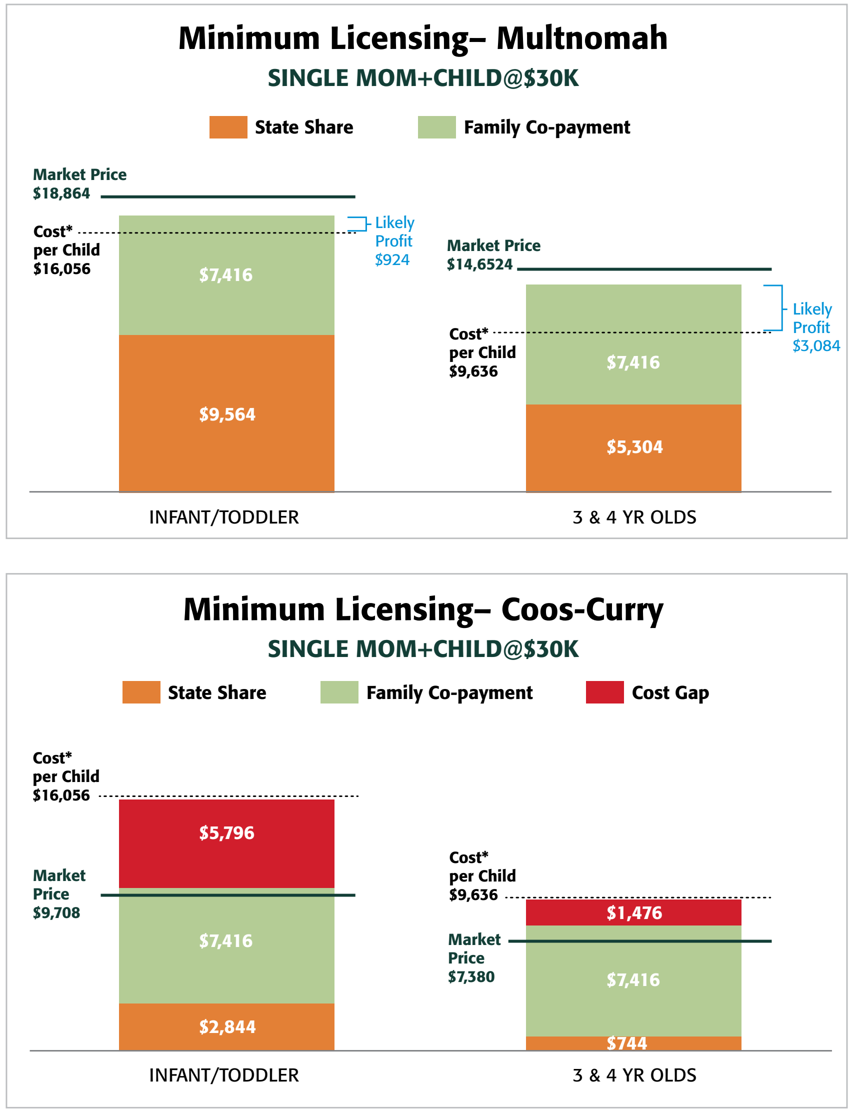
If we use the Center for American Progress model as a proxy for the cost of care[ii], **Figure 1** illustrates the impact of basing public reimbursement on market prices.

A child care center located in Multnomah County has a potential profit margin—if it bases staffing on minimum licensing standards and is able to collect the required parent subsidy co-payment in full. But that same center would suffer losses—even if it collected parent fees in full—if it were located in Coos or Curry counties.

These losses are significant for infant care; thus, it is not surprising that rural areas like Coos and Curry counties have almost no center-based care for infants. Another difference in the two scenarios is the “state share” (the amount the state reimburses the center for each child). In Portland (Multnomah County), the state pays $9,564 toward the cost of infant care for a family of two that earns $30,000 a year but only $2,844 if that same child, in the same family, was enrolled in a child care center located in Coos or Curry counties. This inequity is a direct result of linking state reimbursement to the “market rate” (local child care market prices) rather than estimated costs.

In situations where a child care center chooses to pay better wages and meet higher health, safety and quality standards, the profit margins previously modeled disappear. Even the child care center in Multnomah County loses money on babies, although it will likely break even on care for preschool-aged children if it can successfully collect all parent fees. For centers in rural areas like Coos and Curry, meeting high-quality standards is impossible without significant fundraising from philanthropy.

Figure 1. Minimum Licensing Care

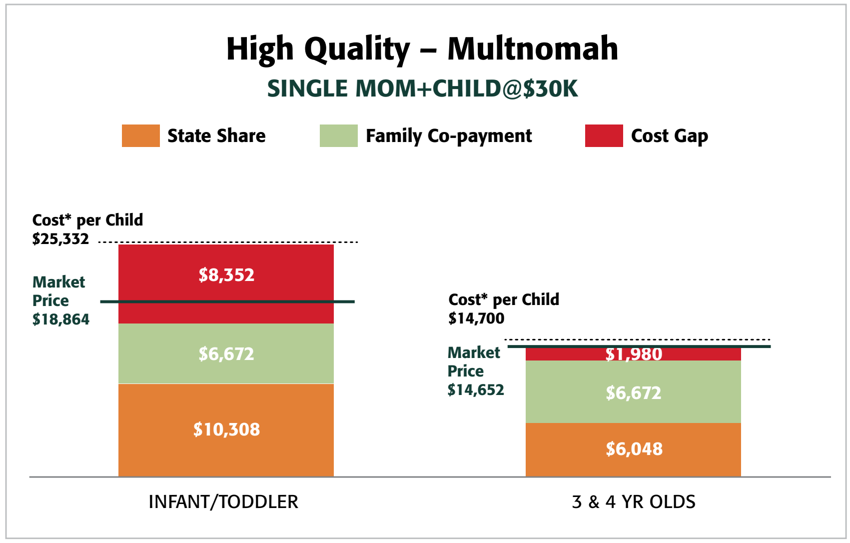


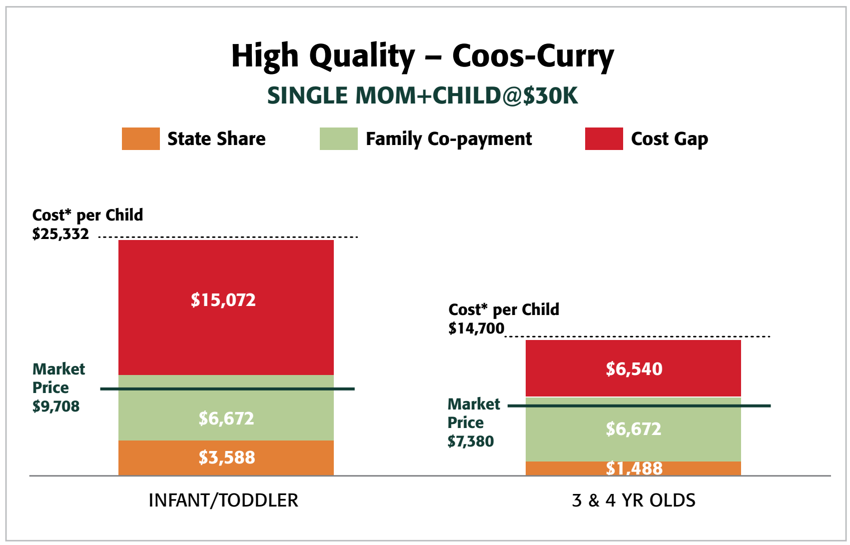
**Cost per child from Center for American Progress http://costofchildren.org*

The bar charts in **Figure 2**, which model a high-quality child care center in both Multnomah and Coos-Curry, further underscore the inequities. While centers in both urban and rural areas must raise significant sums in order to provide high-quality center-based child care for babies, the cost gap in rural areas is so large that sustainability is virtually impossible. **In short, the current approach to child care rate-setting consistently disadvantages babies and rural areas.**

An additional challenge embedded in the current approach to child care rate-setting is the notion that child care centers should not be permitted to charge publicly funded children more than non-subsidized families that pay tuition. When market prices were first established as the benchmark for child care rate-setting, federal rule required states to establish a market rate ceiling and reimburse providers at the price they charge so long as it does not exceed this rate ceiling. While rate-setting has evolved significantly since the Child Care and Development Fund was first enacted, this provision appears to have lingered—with serious consequences. We have all heard the legend of "the $600 hammer" purchased by the Defense Department in the 1980s. This cautionary tale underscored a broken accounting system, focused largely on making sure that money is spent as Congress directed rather than making sure it is spent wisely. But rather than address the root problem, we've allowed this cautionary tale to define child care policy, assuming that expecting government to pay more than an ordinary citizen is wrong. When it comes to child care, the opposite is true: It's the right thing to do.

Figure 2. High Quality Care





**Cost per child from Center for American Progress http://costofchildren.org*

RECOMMENDATION: **Use a cost-based model to calculate reimbursement rates.**

The Oregon Department of Human Services is currently conducting a child care provider survey to gather data needed to model the likely cost of child care. It will be important to ensure that sufficient data is obtained from rural areas of the state, so that cost models include accurate assumptions about cost variance. These data will be vital for future rate-setting among publicly funded Early Childhood Education initiatives.

Lower Family Co-Payments

Research conducted by Child Care Aware® of America (CCAoA), among others, has underscored that high-quality child care costs more than the average U.S. family can afford—especially when that care is for infants or located in rural or under-resourced neighborhoods. So when we cap government payment at what consumers spend and apply that cap to the individual fees charged by programs, it is impossible for child care providers in rural areas (where family incomes are lower) to generate the income they need to pay their staff a living wage. Yet in higher-income, more urban regions of the state, providers can, and do, charge top dollar to families and to government. Bottom line: The policy might, on its face, appear be written to ensure that funds are spent as directed, but it is simply not equitable or fair.

This analysis underscores another serious problem with Oregon child care subsidy: The family co-payment is not only much too high but it does not align with the public reimbursement rate. The result is that the state's payment for child care in Coos and Curry counties is 76% lower than in Portland, but the family payment ($6,672 per year for one child) is exactly the same in both regions. In short, the policy not only fails to ensure equal access to care, it actually results in inequitable family expenditures.

Rules established by the Oregon Department of Human Services require all families who receive a child care subsidy to pay for a portion of the services. The mandatory co-payment, which is based on family income and consistent across the state, is shown in green in the bar charts in **Figures 1** and **2**. Child care centers are also permitted to charge a second co-payment (not indicated on these charts) intended to cover the difference between the center tuition and the state reimbursement rate. The fact that ODHS rule permits child care centers to barter for family co-payments suggests that the state is fully aware that co-payments are high and collecting parent fees is a challenge for many centers. The willingness to endorse barter in lieu of cash is not only unique to Oregon (no other state permits this practice) but places an unfair burden on child care center operators who are already poorly paid and under-funded. Moreover, ODHS co-payment policies do not align with other early care and education services in the state. Baby Promise and Pre-K Promise, for example, do not require any family co-payment, nor does the federal Head Start program.

ODHS has currently waived publicly mandated co-payments due to the COVID pandemic (centers may still charge the second co-payment if they wish). If the co-payment policy is reinstated, significant reform should be considered. Impacts of the co-payment waiver could be explored as an opportunity to learn about best practice.

Family Co-payment: Sometimes referred to as Parent Co-payment, the portion of the child care fee paid by families who are receiving Employment-Related Day Care program (ERDC) subsidies.

Oregon Department of Human Services requires that families pay a portion of the tuition with co-payments based on income and family size. The required co-payment for a single mother with one child and an annual income of $30,000 is $618 a month. The required co-payment for a single mother with one child and an annual income of $16,900 is $160 a month. (Co-payments are slightly lower for families that choose higher-quality care).

Unlike the rate ceiling, which varies by county, family co-payments do not vary by location; they are the same across the state.

RECOMMENDATION: **Lower family co-payments.**

Permanently waive or significantly lower co-payments for families who receive child care assistance.

Stable and Consistent Funding, based on enrollment and administered as slot contracts

In order to provide high-quality early learning, every day, for every child enrolled, child care centers and homes need stable and consistent funding. This is particularly crucial in rural areas where every penny counts and programs are so small that the loss of even one child can have a profound impact on operating revenue. In the current environment, ensuring stable revenue is not only difficult but potentially impossible. Even predicting likely revenue can be difficult. A challenge unique to the child care sector is that tuition must be collected, from each family (or government, on behalf of that family) on a weekly or monthly basis. Each situation, each payment agreement, is unique—which makes accurate and detailed recordkeeping essential. To make matters even more challenging, payment for children whose families receive child care assistance from Oregon Department of Human Services is typically based on the child's daily attendance. Thus, even if a child is enrolled in a full-time child care space and the center is paying teachers to provide those services, the center may not receive payment if the child is absent for more than five non-consecutive days per month or if they fail to collect and submit all required attendance documentation.

Recognizing that attendance-based financing would have a devastating impact on child care centers during the COVID pandemic, ODHS has temporarily waived this policy and is now paying full child care tuition based on a child's enrollment. This is a much-needed response and should be made permanent.

Basing child care subsidy payment on enrollment rather than attendance is an important step in the right direction, but further reform is needed. Child care centers need to know in advance how many of their slots will be purchased by government and assured that those slots will be paid in full for an entire year. Contracting for slots can achieve this end, and this is indeed how assistance from other publicly funded early care and education funding streams (such as Baby Promise, Pre-K Promise and Head Start) is provided.

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States often shy away from contracting for slots because 1) negotiating many small contracts with myriad child care programs can be burdensome; and 2) contracted slots make it difficult to shift dollars among child care sites based on family demand for care near their home or workplace. However, these issues can be addressed by negotiating with a local provider network Hub, such as the Shared Services Alliance that was recently launched in Coos and Curry counties. Contracting for slots with a Hub agency can not only help stabilize funding for participating providers but also ensure that parents are still able to choose the provider that best meets their needs from a network of participating center- and home-based sites.

RECOMMENDATION: **Stabilize funding for child care centers.**

- Base child care assistance reimbursement on a child's enrollment rather than daily attendance.
- Negotiate slot contracts with a Shared Services Hubs on behalf of a network of participating providers.

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Support for provider networks structured as Shared Services Alliances

National cost modeling has underscored that to be financially sustainable and offer high-quality services, a child care center needs to serve at least 100 children. This level of scale is simply not possible in rural areas—at least not in a single site. However, if a network of programs is linked by a shared back office and state-of-the-art automation, it is possible to attain the administrative scale needed to be sustainable and still offer services in small, family-friendly sites in various locations. Given that most child care centers in the United States serve about 60-75 children, a growing number of industry leaders have begun to explore a range of strategies to build provider networks. Referred to as the Early Childhood Education Shared Services movement and led by Opportunities Exchange, this new management approach was embedded in the Bandon Community Child Care Center business plan and is currently being explored by a Statewide Shared Services Co-Design Team funded by the Oregon Community Foundation. Support for Shared Services pilots as well as strategies to scale access to Child Care Management Software (CCMS) will be a crucial to sustaining child care in rural Oregon.

RECOMMENDATION: **Support provider networks.**

Support efforts to launch and scale a statewide strategy for linked, regional provider networks, based on a Shared Services framework that includes family child care and small centers across the state.

A Regulatory Framework appropriate for small sites, like micro-centers and learning hubs.

Early Childhood Education (ECE) programs in rural areas are further challenged by child care center licensing and quality rules designed for child care centers that enroll a significant number of children. Family child care regulations—intended for practitioners who serve very small, mixed age groups—may be a better fit for rural areas.

Finding and keeping child care teachers that meet the standards required for state child care center licensing and public subsidy is very difficult in rural areas. The Bandon Community Child Care Center (BCCCC), a new site that opened last year with strong support from philanthropy and local leaders, serves only 14 children in a rural child care desert. Despite strong leadership, careful planning and generous start-up funding, this center has met serious sustainability challenges due in large measure to the rate and co-payment issues previously described. Additionally, because the child care licensing background check and staff qualification requirements did not align with K-12's requirements and processes, they were unable to tap staff or coordinate resources with the elementary school in which the center was housed. A recent assessment details these challenges, reporting that they are now on their third director (in one year) and continue to experience challenges finding qualified teachers and navigating myriad state requirements for child care center staff and facilities—despite paying above average wages and providing full benefits for staff.

ECE leaders across the United States are looking closely at a new, emerging category of child care called micro-centers which was pioneered in Tennessee by the Chambliss Center for Children. Chambliss supports a network of micro centers, located in 13 Chattanooga public schools and licensed as Group Child Care. These sites, which have had a pivotal impact on teacher turnover, are possible because they fall into a licensing definition with standards designed for a small, one-classroom site with no more than two teachers and leadership provided by off-site administration. Seven states (Alaska, Idaho, Kansas, Missouri, Mississippi, Nevada, Wisconsin) currently allow family child care to operate in a non-residential setting, and an additional eight (Alaska, Iowa, North Dakota, Nebraska, Pennsylvania, Tennessee, West Virginia, Wyoming) allow group or large family child care in these settings. This definition makes it possible for small sites to maintain appropriately credentialed staff for small, mixed-age groups.

Oregon could create a similar network of micro-centers in rural areas like Coos and Curry counties by re-defining Certified Family Child Care Home as "a child care facility that has certification to care for a maximum of 16 children at any one time" (essentially removing the limitation that care be provided in a single family dwelling). In lieu of permanently revising the rule, Oregon policymakers could pilot the idea via a waiver of rule and then evaluate results before making the change permanent. A revision like this would go a long way toward expanding the supply of affordable quality child care in rural areas.

RECOMMENDATION: **Make regulatory framework appropriate for small sites.**

Revise Chapter 414 of the Oregon Department of Education rule to permit small child care located in a non-residential setting to be licensed as a Certified Family Child Care Home.

Conclusion

Oregon has strong public, private and philanthropic leaders who are exploring innovative and bold approaches to rebuild and reinvent a more sustainable system of child care programs post COVID-19. In their efforts to sustain child care programs, Oregon is already implementing some components of the plan outlined above. To ensure that rural child care programs in Oregon have an equitable chance to shift the landscape of child care and serve children and families that need it most, this brief suggests an implementation of all proposed strategies.

[i] The number of providers with a Star 5 rating in Oregon's Quality Rating and Improvement System dropped from 338 to 169 between pre-pandemic and mid-pandemic, as reported in https://www.childcareaware.org/ccdc/state/or/

[ii] The CAP cost estimation modeling tool uses a base salary for an Oregon Director at $46,580 and a Lead Teacher at $32,430—a little higher than the Multnomah BLS data reported above—and sets wages for top quality care at $76,937 for a Director and $53,565 for a Lead Teacher. The CAP model also includes an allocation of $5,380 per employee for health insurance and holds OTPS costs constant based on these assumptions: https://cdn.americanprogress.org/content/uploads/2020/09/03111756/COVIDchildcare-methodology-update.pdf

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Investment in Child Care Yields an Invaluable Return for all Oregonians

Child care makes it possible for parents/primary caregivers to work. An overwhelming number (86%) of primary caregivers report that lack of child care hurt their efforts and time commitments at work. And Ready Nation estimates that these productivity problems cause U.S. employers to lose $12.7 billion each year. Families who live in rural areas face even greater challenges, due to the limited supply of child care and long commutes.

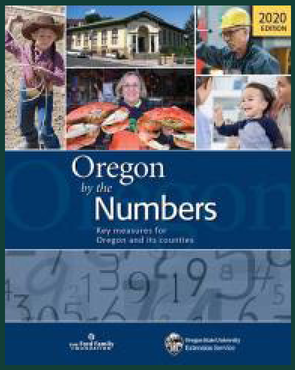
Source: https://www.strongnation.org/articles/780-want-to-grow-the-economy-fix-the-child-care-crisis]

Investments in child care return dollars to local economies. In Oregon, the child care industry employs more than 25,000 taxpayers (as business owners or employees) in businesses that generate about $496M in direct revenue plus $492M in spillover revenue each year. So, investments in rural child care actually pay for themselves—in real dollars, returned to the economy via local taxes as well as increased economic activity from the purchase of goods and services.

Source: https://www.ced.org/childcareimpact

Investment in high-quality early learning has a lifetime impact. High-quality early learning can improve cognitive and social development, prevent or minimize gaps in school readiness and act as a protective factor against adult disease and disability.

Sources: https://www.cdc.gov/policy/hst/hi5/earlychildhoodeducation/index.html
https://www.brookings.edu/ research/impacts-of-early-childhood-programs/
https://education.nsw.gov.au/early-childhood-education/information-for-parents-and-carers/brain-development-in-young-children



Find county-specific data about available child care slots in the 2020 edition of Oregon by the Numbers, published by The Ford Family Foundation and Oregon State University Extension Service.

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