OREGON
Child Care

Progress at Risk: An Update on Child Care in Rural Oregon

The Ford Family Foundation

In 2020, The Ford Family Foundation commissioned the research that produced the report **Child Care in Rural Oregon: Bold Approaches to Address Systemic Inequity and Rebuild Child Care**. Led by Louise Stoney, a nationally recognized expert in early childhood care and education, the research investigated the economic impact of Oregon's child care policies on rural families and child care businesses. It included five strategies to improve Oregon's child care system.

This follow-up report details the progress made since 2020, while describing the continued challenges faced by rural families and child care businesses and highlighting opportunities for further systems and policy improvements. This brief celebrates the substantial progress made on many of the original report's recommendations while acknowledging lingering inequities.

In the short time since the initial report's 2020 release, much has changed. Oregon has weathered a pandemic, sworn in a new governor, passed legislation to reform the child care system, and created a new state agency, the Department of Early Learning and Care. Despite this progress, many families—particularly in rural Oregon—remain underserved by the child care system. Recent gains are at risk due to budget shortfalls and the impending end of federal funding. There is still work to do to strengthen the child care ecosystem to benefit the youngest Oregonians and their families and communities.

Images featured throughout this report were taken by students and teachers at Yoncalla Elementary School. Since 2012, the school has worked with the students, parents, community members, and other key partners in supporting the growth of an Early Works program—and has ultimately succeeded in improving education quality and outcomes across the district. Learn more at: **tfff.org/yoncalla-early-works.**

Executive Summary

Oregon has made significant progress toward improving its child care system since the Child Care in Rural Oregon report was published in 2020. This includes advancements to support rural families and the child care businesses that serve them. A number of promising efforts are poised to further stabilize and strengthen the child care system, especially in rural communities. Unfortunately, capacity limits and current policy and funding continue to negatively impact child care providers and the families they serve. The following is a summary of the current status of the 2020 report's five strategies.

Strategy 1. Use a cost-based model to calculate subsidy rates

Efforts are underway to shift Oregon's child care subsidies from market price to a cost-based model in 2026. This change can't come soon enough for rural communities, given the lower Employment Related Day Care (ERDC) reimbursement rates currently set for most rural communities. To help mitigate disparities in the interim, the state could shift or eliminate geographic rate area differences by taking the current rate in most urban communities statewide. Otherwise, ERDC will remain geographically inequitable until the state transitions to cost-based rate setting.

Strategy 2. Lower family copayments

HB 3073 drastically lowered family copayments, easing the financial burden on some low-income families while increasing the state's cost burden. Maintaining current copayments while working toward cost-based rates promotes equitable access to child care for families. This will require additional funding when the present funding source expires at the end of 2024.

Strategy 3. Stabilize funding for child care programs

Recent ERDC policy changes and the implementation of programs like Baby Promise have stabilized funding for some providers. However, insufficient funding for these programs limits families' access to financial assistance and prevents further stabilization for child care providers. Due to inadequate ERDC funding, a growing waitlist of families (8,100 as of September 2024) is unable to access support or participate in programs that require ERDC enrollment.

Strategy 4. Support child care providers through shared services alliances

Shared services alliances serve more than one-third of Oregon counties. These alliances support and strengthen child care businesses by pooling resources and providing business management technology, training and coaching. The statewide Oregon Child Care Alliance (OCCA) is growing but needs adequate funding to provide equitable services to child care businesses.

Strategy 5. Adjust licensing regulations to support new and mixed models of care

The micro-center pilot (SB 1040, 2023) is an important first step to shift Oregon's regulatory framework toward supporting additional child care program models. Lessons learned from other states can help Oregon implement regulatory changes while minimizing unintended consequences.

Oregon's child care system will require sufficient long-term funding to maintain progress, build on momentum and meet challenges. For child care businesses to not just survive but thrive, efforts to align and streamline policies and processes must continue, with specific attention to removing systemic barriers. Only then can Oregon's children get the high-quality, nurturing care they deserve.

Why does child care matter?

Child care is critical to children's early learning and to their caregivers' ability to work.

Numerous studies have shown that high-quality early learning is vital to children's healthy development. Early learning supports children's school readiness, impacts their cognitive, behavioral and social development, and establishes protective factors to support lifelong health.[1] Child care is also an essential component of a functioning economy and vital for caregiver employment.

Oregon has long struggled with insufficient child care to meet families' needs, especially in rural communities.[2] But the problem is nearly universal; 90 percent of Oregonians say that finding affordable, high-quality child care is difficult.[3] According to the 2022 Household Survey, over one-third of rural Oregon caregivers with children aged 1 to 5 reported that someone in their family had to quit a job, not take a job, or greatly change jobs due to child care issues.[4] The Ford Family Foundation's Oregon Voices survey also found that more than three-quarters of respondents with children under 5 agree or strongly agree that "in my community, child care is hard to find."[5]

For low-income families who need financial assistance or families who need culturally responsive care (e.g., Spanish speaking), child care is even more difficult to find. Across Oregon, Black and Latinx communities, families of children with disabilities, and families in rural areas face additional barriers to affordable, high-quality child care.[6]

The Department of Health and Human Services states that child care is no longer affordable if it exceeds seven percent of household income for families with two children.[7] In Oregon, about 23 percent of household income goes to child care. Families in three Oregon counties—Columbia, Curry and Wheeler—spend nearly a third of household income on child care.[8]

1 Isaacs, J. and Roessel, E. (2008). Impacts of Early Childhood Programs. Brookings Institute. https://www.brookings.edu/articles/impacts-of-early-childhood-programs/
2 Pratt, M. and Sektnan, M. (2022). Oregon's Child Care Deserts 2022: Mapping supply by age group and percentage of publicly funded slots. Prepared for the Oregon Early Learning Division. https://health.oregonstate.edu/sites/health.oregonstate.edu/files/early-learners/pdf/research/oregons_child_care_deserts_2022.pdf
3 Oregon Values and Beliefs Survey. (April 2022). Children and family support services. Oregon Values and Beliefs Center. https://oregonvbc.org/children-and-family-support-services/
4 Pears, K.C., Bruce, J., and Scheidt, D. (2023). Oregon Preschool Development Grant Birth to Age 5 Strengths and Needs Assessment: 2022 Statewide Household Survey Results. https://www.oregon.gov/delc/Documents/pdg-hh-survey-2022-exec-summ-eng-FINAL.pdf
5 Voices on Oregon's Child Care: https://orvoices.org/issue-briefs/voices-on-oregons-child-care/
6 Oregon Legislative Policy and Research Office. (December 2020). Report of the Joint Task Force on Access to Quality Affordable Child Care: Report pursuant to House Bill 2346 (2019).
7 Department of Health and Human Services, 45 CFR Part 98 (2024). Improving Child Care Access, Affordability, and Stability in the Child Care and Development Fund.
8 University of Wisconsin Population Health Institute. (2022). Oregon State Report. https://www.countyhealthrankings.org/sites/default/files/media/document/CHR2022_OR_0.pdf

While many families struggle to find and afford high-quality child care, child care businesses are also struggling to stay afloat. These issues are especially salient in rural Oregon, where the differences between costs, public funding and family incomes are greatest.

Over 23,000 Oregonians work as business owners and employees in the child care field.[9] As of 2019, Oregon's child care businesses generate about $496 million in direct revenue yearly and $492 million in spillover revenue (indirect revenue resulting from parent or caregiver having access to child care) each year.[10] In other words, investments in child care not only create lifelong positive impacts on children and families–they also return dollars to the economy.

But the differences between the high cost of providing care and the costs that the state and families can bear make it difficult for businesses to make even a small profit. Many child care businesses accept a mix of public funds and family tuition, which can be complex to manage but necessary to make ends meet. The industry's tight financial margins impact not only families and business owners, but also program staff and early childhood educators, who are often underpaid. The child care workforce is 95 percent women and disproportionately women of color and immigrants, groups whose work is often undervalued and underpaid.[11] For example, median wages for teachers in child care centers range from $33,280 annually[12] for those paid the least among center staff, to $45,760 annually for those with the highest wages. For context, MIT's living wage calculator indicates that a single adult without children, or a household with two working adults and one child needs over $50,000 annually.[13]

The COVID-19 pandemic exacerbated pre-existing challenges in Oregon's child care system. While recent policy changes represent some progress, the sector remains in a state of crisis.

The COVID-19 pandemic introduced volatility into an already underfunded and unstable sector. During the pandemic, many child care programs closed, and some never reopened. Closures disproportionately impacted families of color and low-income families. Long-standing issues for child care businesses, such as finding qualified staff, were only exacerbated by the pandemic.[14]

In response, the state made policy changes to benefit child care providers and families, including eliminating barriers to services and funding that went beyond federal requirements. Additional funding was also made available in an attempt to stabilize and later rebuild child care capacity, such as through stabilization grants made possible by federal American Rescue Plan Act funds, and capacity building grants provided through the CARES Act (2020) and general fund dollars.

But Oregon has not yet been able to alleviate its child care crisis. While public funding for infants and toddlers increased between 2020 and 2022, most counties in Oregon remain child care deserts, particularly for infant care. Rural counties are still far more likely to be child care deserts than urban counties.[15] Oregon has made some progress, particularly using short-term federal funding, but will need to identify long-term funding to ensure families can access the affordable, high-quality child care they need.

9 Oregon Child Care Research Partnership. (2019). Oregon Early Learning Workforce: Nine Years Beyond Baseline Comparison of 2012 and 2021. https://health.oregonstate.edu/early-learners/research/oregon-early-learning-workforce-2021-report

10 RegionTrack. (2019). Child Care in State Economies, 2019 Update. https://www.ced.org/assets/reports/childcareimpact/181104%20CCSE%20Report%20Jan30.pdf

11 Oregon Legislative Policy and Research Office. (December 2020). Report of the Joint Task Force on Access to Quality Affordable Child Care: Report pursuant to House Bill 2346 (2019).

12 Oregon Center for Career Development in Childhood Care and Education and Oreg Child Care Research Partnership (August 2024). Oregon Early Learning Workforce: Ten years beyond baseline comparison of 2012 and 2022. https://health.oregonstate.edu/sites/health.oregonstate.edu/files/oregon-early-learning-workforce---2022-report.pdf

13 MIT Living Wage Calculator for Oregon. https://livingwage.mit.edu/states/41

14 Ginsberg, I., Green, B. L., Richardson, A. & Shammel, K. (2023). Why home-based child care providers closed their doors: Learning from COVID-19 to strengthen resilience in the early learning system. Report submitted to the Oregon Early Learning Division, March 2023. https://www.oregon.gov/delc/Documents/delc-pdg-provider-closed-web.pdf

15 Pratt, M. and Sektnan, M. (2022). Oregon's Child Care Deserts 2022: Mapping supply by age group and percentage of publicly funded slots. Prepared for the Oregon Early Learning Division. https://health.oregonstate.edu/sites/health.oregonstate.edu/files/early-learners/pdf/research/oregons_child_care_deserts_2022.pdf

Oregon's leaders have set ambitious goals to improve the child care industry and made progress to improve the states' processes and policies.

Since 2020, there have been several major shifts in Oregon's child care system, including efforts to set big goals and hold the state accountable in making progress toward these goals.

A broad coalition of Oregon nonprofits, community-based organizations and unions came together in 2020 to form Child Care for Oregon to advocate for more equitable, accessible and affordable child care in Oregon. Their work led to the passage of HB 3073 in 2021, which expanded eligibility for child care assistance and created a new centralized state agency, the Department of Early Learning and Care (DELC). Unfortunately, expanded eligibility did not come with an increase in funding, ultimately leading to the need for a waitlist.

DELC's launch in mid-2023 brought the state's early childhood education and child care programs under one umbrella, representing a big step toward better resourcing and structuring public programs. This introduces opportunities for improved processes, systems and coordination, but implementation will require additional resources. DELC's new strategic plan should help the agency prioritize and indicates a desire to continue advancing accessibility and equity in its services and for child care more broadly.[16]

Raise Up Oregon is a statewide plan developed by Oregon's Early Learning Council in collaboration with five state agencies and intensive community engagement efforts.[17] The plan aims to bolster the child care ecosystem, further equity and improve access. Its goals and strategies are ambitious and detailed. Here are just a few examples:

- **Colocating early childhood education in housing settings**
- **Further expanding eligibility for child care assistance**
- **Reducing family financial burden for access to early learning and care**

Oregon has benefited from the federal government's recent investment in child care.

The American Rescue Plan Act (ARPA), passed in 2021, was a historic investment in early childhood education, distributing $24 billion in federal funding to support the child care sector. This included $400 million in funding for Oregon. Of that, $250 million was used for one-time stabilization grants to 3,350 child care providers and $97 million was used to fund Oregon's Employment-Related Day Care program and cap copays for eligible families.[18]

When ARPA ends in 2024, so does the funding used to make many of the improvements applauded in this brief. In the absence of new federal investments, preventing setbacks will require broader investments at the state and local levels.

16 Oregon Department of Early Learning and Care. (2024). Strategic Plan: Growing Oregon Together 2024-2029. https://www.oregon.gov/delc/about-us/Documents/DELC_Growing-Oregon-Together.pdf

17 Oregon Early Learning Council. (2023). Raise Up Oregon: A Statewide Early Childhood System Plan 2024-2028. Salem, OR: Department of Early Learning and Care. https://www.oregon.gov/delc/about-us/pages/raise-up-oregon.aspx

18 Stringer, G. (October 2 2023). Families face uncertain day care outlook as state spends last of federal funds. Oregon Capital Chronicle. https://oregoncapitalchronicle.com/2023/10/02/families-face-uncertain-day-care-outlook-as-state-spends-last-of-federal-funds/

What is Employment-Related Day Care?

The Employment-Related Day Care program is a subsidy program that provides financial assistance for child care to low-income Oregon families who are working, in school, or receiving Temporary Assistance for Needy Families.

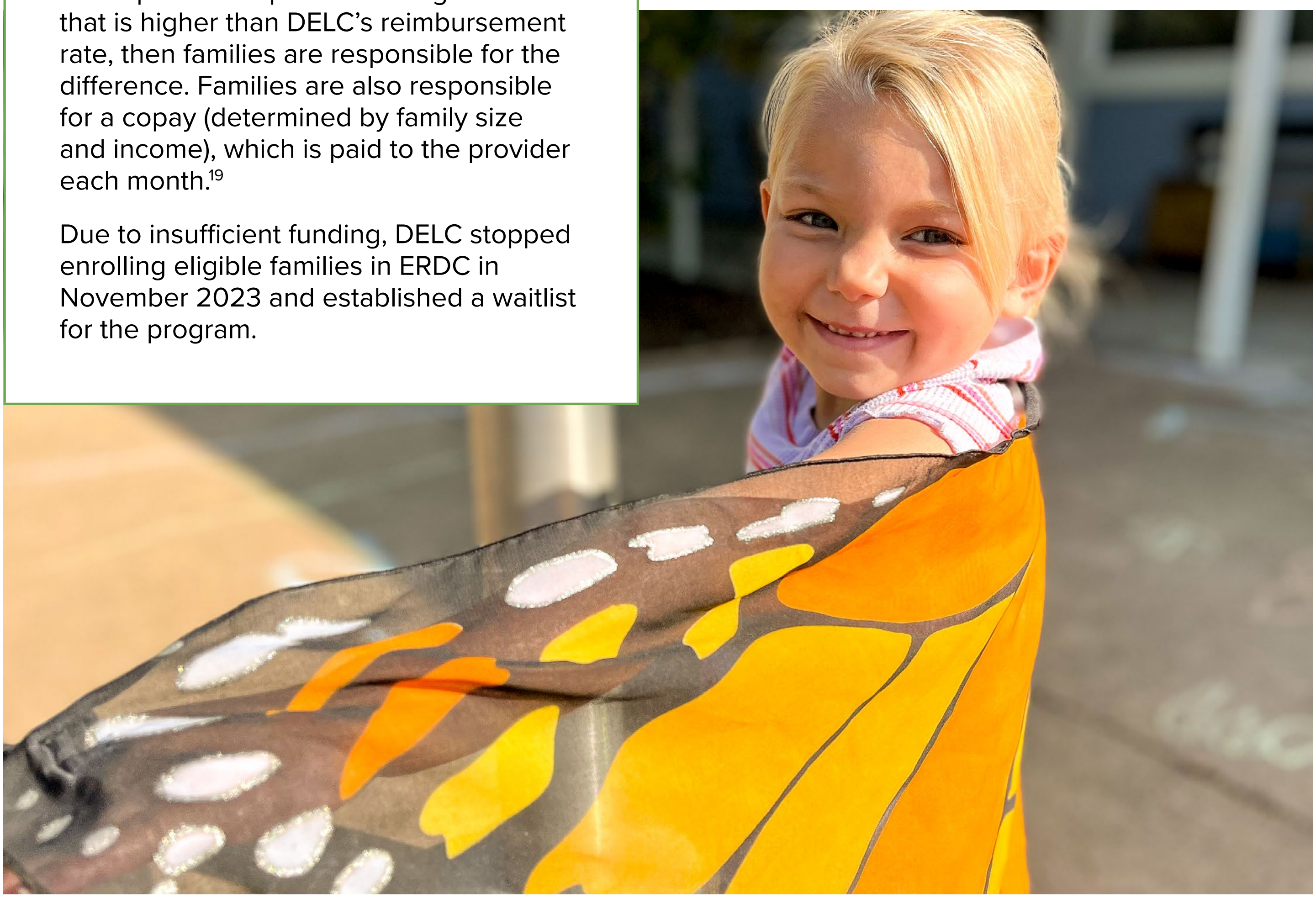
Families receiving ERDC choose a qualified child care provider, and DELC reimburses providers for a portion of the cost of child care. DELC's reimbursement rates are designed to cover a large portion of costs and to provide enough funding so that families can access a range of child care options. If a provider charges a rate that is higher than DELC's reimbursement rate, then families are responsible for the difference. Families are also responsible for a copay (determined by family size and income), which is paid to the provider each month.[19]

Due to insufficient funding, DELC stopped enrolling eligible families in ERDC in November 2023 and established a waitlist for the program.

While much has changed for Oregon's child care system since 2020, the industry remains in crisis and recent progress is at risk.

Underfunded existing commitments and sunsetting ARPA funds present significant challenges to maintain or build on current progress. The 2024 state legislative session narrowed the ERDC's substantial budget gap, which made it possible for the state to continue to meet its existing obligations to enrolled families. However, a lot more funding is needed to serve the 8,100 qualified families on the ERDC waitlist as of September 2024.[20]

This report details the progress made on the five strategies to improve Oregon's child care system introduced in the 2020 report, while also describing challenges and opportunities for further improvement.



19 Oregon Department of Early Learning and Care. Employment Related Day Care (ERDC) program. https://www.oregon.gov/delc/programs/pages/erdc.aspx
20 Oregon Department of Early Learning and Care. ERDC Program Data. Accessed November 20, 2024. https://www.oregon.gov/delc/data/Pages/default.aspx

OREGON Child Care

Strategy 1

Use a cost-based model to calculate subsidy rates

PROGRESS: Efforts are underway to shift Oregon from a market price model to a cost-based model for child care subsidies in 2026, a change that can't come soon enough for rural communities.

Oregon's Employment-Related Day Care program (ERDC) provides low-income families with financial assistance for child care. Because ERDC is the largest purchaser of child care in Oregon,[21] its policies, practices and reimbursement rates are highly influential in the child care market. Historically, ERDC reimbursement rates to child care providers have been set using a biennial survey called the Market Price Study, which analyzes the rates that providers charge families. ERDC reimbursement rates are then negotiated through the union bargaining process.[22] This impacts not only what the state can do through payment policies, but also the timelines on which these changes can be made.

Using market prices to determine ERDC reimbursement rates reflects what families can afford given their income—but does not consider the actual cost to provide child care. The Market Price Study historically grouped counties into three rate areas, with counties in area A at the highest market price and counties in area C at the lowest market price. Market rates for child care are higher in urban areas, largely due to higher median incomes in these counties, so ERDC reimburses counties in area A at a higher rate than counties in areas B or C.[23]

In 2020, advocacy and union negotiation led to merging area B and C rates, effectively eliminating the lowest level of payment by applying area B rates to rate area C. Though area B rates are still markedly lower than those for rate area A (as illustrated in the example on page 8), this did narrow the gap between rates paid in rural areas formerly in rate area C. Another important consideration is the timeline of the Market Price Study and rate setting decision making. Reimbursement rates are typically based on data that is 2 years old, therefore likely to undervalue current costs, particularly given steep rates of inflation in recent years.

While ERDC reimbursement rates vary geographically, the cost to provide child care does not consistently vary geographically. The most substantial costs associated with providing child care—particularly staffing and physical space—are high statewide.[24] Because the state reimburses rural providers at a lower rate than urban providers, this can create a large gap between ERDC reimbursements and the cost to provide child care in rural communities. Many child care businesses operate with a profit margin of less than one percent,[25] and the regional disparity in

21 Oregon Department of Early Learning and Care. Employment Related Day Care (ERDC) program. https://www.oregon.gov/delc/programs/pages/erdc.aspx
22 State of Oregon Early Learning Division. (2022). Alternate Rate-setting Structure for the Employment Related Day Care (ERDC) Program, Legislative Report/Progress Update. https://www.oregon.gov/delc/Documents/2022-Alternate-Rate-Setting-Structure-Report.pdf
23 Pratt, M., Sektnan, M. and Houston, L. (2023). Oregon Child Care Market Price Study 2022. Oregon State University. https://health.oregonstate.edu/early-learners/research/oregon-child-care-market-price-study-2022
24 State of Oregon Early Learning Division. (2022). Alternate Rate-setting Structure for the Employment Related Day Care (ERDC) Program, Legislative Report/Progress Update. https://www.oregon.gov/delc/Documents/2022-Alternate-Rate-Setting-Structure-Report.pdf
25 U.S. Department of the Treasury. (2021). The Economics of Child Care Supply in the United States. https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf.

reimbursement rates puts rural child care businesses in a bind. To make up the gap between what the state will reimburse and what it costs to provide care, some providers charge families more. Others are reluctant to charge families more than they can afford, and some even choose to protect families by not charging these overage fees, which can result in child care businesses operating at a loss.[26]

Oregon began transitioning to cost-based reimbursement rates in 2020, which should eliminate geographic disparities. This shift to cost-based rates is encouraged by the federal government and mandated by HB 3073, which passed in 2021. An initial cost-modeling study was completed in early 2021 and an advisory committee charged with guiding next steps was established in 2022. Implementation has been delayed in part due to ongoing infrastructure development for DELC, the state's newest agency. Updates are now needed to the original cost-modeling formulas to account for inflation and other considerations not incorporated into the initial study. It will also be important that new cost-based rates are developed with input from providers and other Oregon child care experts to avoid creating new or worsened inequities and to better support child care business sustainability.

Continued challenges and opportunities: ERDC rates remain inequitable until the state transitions to cost-based rate setting. Shifting or eliminating geographic rate area differences would help mitigate these disparities in the interim.

DELC estimates that even if infrastructure and budgeting needs are met, the earliest the transition could be completed is late 2026. It is possible that reimbursing providers at cost-based rates at similar proportions to the rates in place now will require substantial additional funding. In the interim, ERDC rates will be based on the most recent Market Price Study, with rates remaining lower in rural areas and higher in urban areas unless a change is made to eliminate geographic rate area differences.

DELC cites two primary needs (in addition to funding) to transition to cost-based rates: additional research to update cost modeling and improved data systems. Research is underway to confirm or update costs and refine the model established in early 2021, and DELC is working with a vendor to develop a new provider management system—a substantial undertaking. In the interim, DELC is using existing data systems to develop workarounds for related improvements (e.g., pay based on enrollment rather than attendance).

While working on necessary infrastructure improvements, the state could shift all regions to rate area A until new cost-based rates are set. This change would be in line with the 2022 Market Price Study findings,[27] the Cost of Quality Study and the Alternative Rate Methodology Advisory Committee recommendations,[28] and advocacy from the American Federation of State, County and Municipal Employees and others on behalf of providers. The change is supported by research in Oregon and other states which demonstrates that geographic location is not a significant driver of child care costs.[29] It would be an extension of a change made in 2020 through collective bargaining, when rate area C facilities were reimbursed using rate area B's maximum subsidy reimbursement rate to mitigate low rates in rural communities. The next opportunity to make a similar change comes before the state is likely to be ready to shift to cost-based rate setting, as the next round of union-state collective bargaining will be in spring 2025. It is important to note that this change would likely require increased funding.

26 Pratt, M. et al. (2020). Barriers to Accessing Child Care Subsidies in Oregon: Report in Response to House Bill 2346. Oregon State University. https://health.oregonstate.edu/sites/health.oregonstate.edu/files/early-learners/pdf/research/barriers_to_accessing_child_care_subsidies_in_oregon_corrected_november2020.pdf
27 Pratt, M., Sektnan, M. and Houston, L. (2023). Oregon Child Care Market Price Study 2022. Oregon State University. https://health.oregonstate.edu/early-learners/research/oregon-child-care-market-price-study-2022
28 State of Oregon Early Learning Division. (2022). Alternate Rate-setting Structure for the Employment Related Day Care (ERDC) Program, Legislative Report/Progress Update. https://www.oregon.gov/delc/Documents/2022-Alternate-Rate-Setting-Structure-Report.pdf
29 Stoney, L. (2020). Child Care in Rural Oregon: Bold Approaches to Address Systemic Inequity and Rebuild Child Care. The Ford Family Foundation. https://www.tfff.org/wp-content/uploads/RuralChildCareInOregon_full.pdf

How do rate area differences impact providers?

Under current rate area designations, the state reimburses child care providers differently based on geography. As an example, let's look at two fictional providers, using ERDC Child Care Maximum Rates calculations[30] to determine their reimbursements.

In this scenario, let's compare a registered family child care provider in Eugene to one in Joseph. Each provider has a mixed-age group of children in care: one infant, one toddler and four preschool aged children in full-time care, as well as two school-aged children in part-time care. Every child receives ERDC support and qualifies for the maximum rate, and family copays are the same for both providers. Let's look at the difference in how much the state reimburses these providers to care for the same group of children.

	Provider in rate area A - Eugene (urban Willamette Valley)	**Provider in rate area B -** Joseph (rural Eastern Oregon)
Infant ERDC	$1,157 x 1 = **$1,157**	$833 x 1 = **$833**
Toddler ERDC	$1050 x 1 = **$1,050**	$783 x 1 = **$783**
Preschool ERDC	$967 x 4 = **$3,868**	$768 x 4 = **$3,072**
School-aged ERDC	$650 x 2 = **$1,300**	$539 x 2 = **1,078**
Total monthly income for provider =	**$7,375**	**$5,766**

The difference in reimbursements is $1,609 per month, or $19,308 annually

The provider in Joseph receives about 22 percent less than the provider in Eugene to care for the same mix of children. This is a significant difference in income for child care businesses, which operate with thin margins regardless of geographic location.

What is the cost of providing child care in Oregon?

Let's extend the previous example to look at the cost to provide child care. Below is a highly simplified example scenario informed by the Provider Cost of Quality Calculator from the U.S. Department of Health and Human Services.[31] This example illustrates how little income is earned by many child care providers, particularly home-based providers in rural communities.

Expenses	
Provider salary/owner pay (without benefits; equivalent to $16/hour, 50 hours/week, and 2 weeks of unpaid vacation)	$40,000
Staffing for part-time assistant at $14/hour (no benefits)	$8,000
Portion of housing costs	$7,000
Food and related expenses	$10,000
Materials, supplies & maintenance	$2,500
Professional development, licensing and quality related costs	$1,000
Other administrative costs (e.g., marketing, vehicle, insurance)	$2,500
Total Annual Expenses	**$71,000**
Annual revenue	
ERDC subsidy payments	$69,192
Family copays	$1,440
Family overages	$0
Oregon Child Care Recognition payment	$500
Total Annual Revenue	**$71,132**
Net annual revenue (dollars the provider can save, invest back into their business, take home as additional pay, etc.)	$132

30 Oregon Department of Early Learning and Care. Child Care Maximum Rates calculator. https://www.oregon.gov/delc/programs/pages/rates.aspx
31 U.S. Department of Health and Human Services. Provider Cost of Quality Calculator. https://pcqc.acf.hhs.gov/

This scenario represents a typical arrangement for a registered family provider. Providers do not often draw a living wage as their own salary or owner pay—their revenue often isn't consistent or predictable enough month-to-month to do so. If the example included a more appropriate or ideal salary, including benefits such as health care or retirement savings, the business would run at a net loss unless it brought in additional revenue (e.g., by participating in other state programs or charging families higher rates/overages). While ERDC reimbursement is not designed to cover the entire cost of care, it is easy to see the difficult position that many providers are in when trying to make ends meet.

Another change Oregon could make is to allow providers to charge a higher rate for children enrolled in ERDC than for other children in their care. Currently, providers are not allowed to charge higher rates for children enrolled in ERDC than the rate they charge for other children. However, many families–including families who do not qualify for ERDC, or families who cannot access ERDC (such as those on the waitlist)–cannot afford the rates providers should be charging to meet their costs. This puts providers in a tough position. If they limit the rates they charge their non-ERDC families to what those families can afford, but those rates are lower than the reimbursement rate that their ERDC-families qualify for, they are only able to get reimbursed for the lower rate, not the full ERDC rate.

The simplified scenario that follows illustrates the challenge that this creates for child care providers. It is important to note that the child care costs in this example are below the typical market rate in Oregon; in many parts of the state, child care costs are well above $1,000 per month. Given the tight margins of most child care businesses, the $1,008 in this example could make a substantial difference in whether this provider is able to stay in business and provide quality care to all children.

How do rate limitations impact providers?

As an example, let's look at a certified family provider in a rural coastal community. This provider has 12 preschool-aged children in full time care. Six children receive ERDC support at the maximum rate of $768/month. The families of the other six children cannot afford $768/month, but do not qualify for or cannot access ERDC support. The provider has therefore set a rate of $600/month for these families and must also bill the state $600, rather than the maximum rate of $768.

Provider income at **$600/month x 12 children**
= $7,200

Provider income if they were able to charge **$600/month for six children** and the ERDC maximum rate for the other six children
= $8,208

Potential difference in monthly revenue
= $1,008

This current state policy is in opposition to recent federal guidance. New federal rules, effective April 30, 2024, state that "Lead agencies are allowed and encouraged to pay child care providers the full agency-established payment rate to account for the actual cost of care, even if it is higher than the price the provider charges private pay families."[32] Unfortunately, changing Oregon's policy to bring it in line with federal guidance would likely result in higher costs to the state to reimburse providers for the families currently enrolled in ERDC. That makes this change unlikely without increased funding. Once adequate funding is available, Oregon should change its policy to be in line with federal guidance and begin reimbursing child care providers at the maximum reimbursement rate, even if the rate is more than what providers charge families who do not receive ERDC.

32 Department of Health and Human Services, 45 CFR Part 98 (2024). Improving Child Care Access, Affordability, and Stability in the Child Care and Development Fund. https://www.govinfo.gov/content/pkg/FR-2024-03-01/pdf/2024-04139.pdf

OREGON Child Care

Strategy 2

Lower family copayments

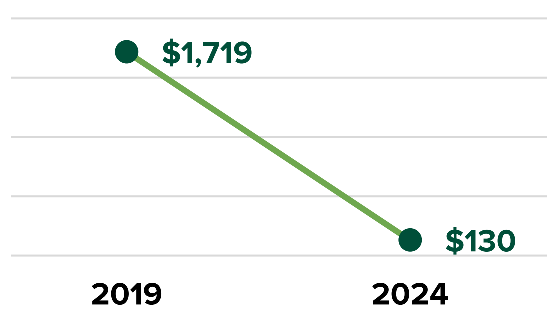
PROGRESS: HB 3073 drastically lowered family copayments, easing the financial burden on some low-income families and increasing the state's cost burden.

Oregon's ERDC program requires family copayments, which are determined by family income and size.[33] Oregon has a history of high copayments compared to other states.[34] Before the onset of the COVID-19 pandemic, family copays were as high as $1,719 per month.[35] In April 2020, the average monthly copay for families was $271.[36] Emergency measures due to the COVID-19 pandemic temporarily suspended family copayments through September 2021.

HB 3073 established a sliding scale for copayments and stipulates that copayments may not exceed seven percent of gross household income.[37] This policy change meant that Oregon went from having one of the highest family copayment rates in the country to one of the lowest.[38] As of September 2024, 12,226 families were receiving ERDC benefits and connected to a provider.[39] The maximum monthly copayment for these families is $130,[40] and the average copayment is $9.14.[41]

Families' Maximum Copayment

In 2019, families' maximum copayment was $1,719 per month. As of September 2024, maximum copayment is $130 per month, and the average copayment is $9.14.



33 Oregon Department of Early Learning and Care. Employment Related Day Care Program. https://www.oregon.gov/delc/programs/pages/erdc.aspx
34 Haldar, S. and Tran, V. (2018). How much do low-income families pay for subsidized child care? Urban Institute. https://www.urban.org/urban-wire/how-much-do-low-income-families-pay-subsidized-child-care
35 Oregon Department of Education, Early Learning Division. (2019). The State of Early Care & Education and Child Care Assistance in Oregon. https://health.oregonstate.edu/sites/health.oregonstate.edu/files/early-learners/pdf/research/the_state_of_early_care_education_and_child_care_assistance_in_oregon.pdf
36 Oregon Department of Human Services. (May 2020). Employment Related Day Care (ERDC) Caseload. https://olis.oregonlegislature.gov/liz/2019I1/Downloads/CommitteeMeetingDocument/221883
37 Early Learning Division, Oregon Department of Human Services & Oregon Department of Education. (2022). House Bill 3073 Department of Early Learning and Care Report to the Interim Committees of the Legislative Assembly. https://www.oregon.gov/delc/Documents/September-2022-DELC-report-final.pdf
38 Pate, N. (September 27 2023). Oregon officials warn of impending waitlist for state day care program. Advocates argue this was avoidable. Oregon Public Broadcasting. https://www.opb.org/article/2023/09/27/oregon-child-care-programs-subsidized-daycare/
39 Oregon Department of Early Learning and Care. ERDC Program Data. Accessed November 20, 2024. https://www.oregon.gov/delc/data/Pages/default.aspx
40 ERDC copay tables: https://www.oregon.gov/delc/programs/pages/copays-billing.aspx#CopayCharts
41 Oregon Department of Early Learning and Care. ERDC Program Data. Accessed November 20, 2024. https://www.oregon.gov/delc/data/Pages/default.aspx

Continued challenges and opportunities: Maintaining the current lower copayments while working toward cost-based rates promotes equitable access for families. Given that the primary funding source for low copayments sunsets in fall 2024, current copayment rates are at risk until another funding strategy is identified. Ideally, copayments will be eliminated and regional inequities will be addressed (such as those caused by “overage” costs).

The current low copayment rates are possible in part because of ARPA funding, which will end by fall 2024. Existing funding should preserve current copay rates until 2025, but without new federal investment, maintaining these will require increased state investment and/or a more permanent funding source. Concerns about projected budgets for the next biennium and the challenges around adjusting rates outlined above put copayments at risk of being raised, which would be a substantial setback in recent progress.

While lower copayments represent a major improvement for Oregon families, this payment structure remains misaligned with other early childhood programs for low-income families, most of which (e.g., Head Start, Baby Promise and Preschool Promise) do not require copayment. If Oregon was able to eliminate copayments for child care altogether, this would help low-income families and promote equitable early childhood education alongside free public Pre-K and Head Start.[42]

Copayments do not represent the entire cost of child care for all families, because families are also responsible for any difference between ERDC reimbursement and the amount a provider charges. This difference, referred to as “overage,” creates an inequitable system. Family copayments are equal statewide, but because the state reimburses rural providers at a lower rate, this often leaves a larger gap between reimbursement and cost of care. Families are often responsible for these overages.[43]

When providers do not charge families overages, they may operate at a loss. But when providers do charge overages, some families are unable to afford child care. Shifting to provider compensation aligned with the cost of care may help families access care that is currently cost-prohibitive due to overages.

How do overages affect families?

Let’s look at an example. A registered family provider in rural southern Oregon receives the standard area B rate for an infant in full-time care. This infant is the only child of two working parents with a combined annual income of $75,000. This is below living wage per MIT’s living wage calculator, but at the top of the scale the state uses to determine copays. The copay for this family is $110/month.

Provider’s charge for care: (for 215 hours of infant care)	**$1200/month**
ERDC covers	**$833/month**
Overage =	**$367**
$110 copay + $367 overage = $477/month cost to families	

In this scenario, overage costs are more than three times higher than the family’s copay. The family pays $477/month for child care, which adds up to $5,724 annually and represents 7.6 percent of the family’s gross annual income.

42 Stoney, L. (September 2020). Rate Setting in Reality: Moving Beyond the Myth of Market-Based Pricing. Opportunities Exchange.
43 Ibid

Strategy 3

Stabilize funding for child care programs

PROGRESS: Recent ERDC policy changes and the implementation of programs like Baby Promise have stabilized funding for some providers.

To remain stable and sustainable, child care businesses need consistent, predictable funding. This is especially important in places where profit margins are thinnest, as in many rural areas.[44] Child care assistance for Oregon's low-income families is provided through the Employment Related Day Care subsidy program, which provides vouchers to low-income families. But the ERDC program has not always represented a stable, predictable funding source. Historically, ERDC payments were based on a child's attendance rather than enrollment. When a child was absent more than five days per month, businesses were not reimbursed for those absences. Because programs can not accurately predict how many staff they need on a given day, staffing costs could easily exceed reimbursement. This misalignment disproportionately impacted smaller programs, including many in rural areas. In addition, ERDC payment occurred after care was provided, creating cash flow challenges for many businesses.

Fortunately, the policy landscape has shifted dramatically since 2020. The stabilizing effect of policy changes made during and after the COVID pandemic are hard to overstate. COVID-19 pandemic response efforts included stabilization grant funding and other strategies to mitigate child care closures and losses. More recently, expansion grants such as those made available via CARES Act funds have afforded child care providers opportunities to grow their businesses. The passage and implementation of HB 3073 included several efforts to improve and stabilize child care funding. HB 3073 shifted ERDC payment to family child care programs from attendance-based toward enrollment-based, allowing all providers to receive payments at the beginning of each month, rather than waiting for reimbursement after care has been provided. ERDC rates have also increased several times, including on June 1, 2022, due to passage of HB 4005 (2022), and on January 1, 2024, as a result of collective bargaining and funding available through ARPA.[45]

44 Stoney, L. (2020). Child Care in Rural Oregon: Bold Approaches to Address Systemic Inequity and Rebuild Child Care. The Ford Family Foundation. https://www.tfff.org/wp-content/uploads/RuralChildCareInOregon_full.pdf
45 DELC. (November 2023). Interim Ways & Means Education Committee ERDC Update. https://olis.oregonlegislature.gov/liz/2023I1/Downloads/CommitteeMeetingDocument/277707

In addition to ERDC, Oregon's public investment in child care also comes in the form of contracted or funded slots. While contracted slots remain limited statewide, they can be tremendously stabilizing for the programs that receive them. These slots provide payments to child care businesses that enroll or agree to enroll eligible children into publicly funded programs (e.g., Head Start, Baby Promise or Preschool Promise). By design, contracted slot programs represent a more predictable and stable source of income for child care businesses and provide payment that is closer to the true cost of care.[46]

Preschool Promise launched in 2016, initially funding 77 grantees in nine regions. In 2020, the program was expanded to 176 grantees; a second expansion in 2022 brought the number of grantees to 233, offering services in more than 300 sites.[47] Following continued and steady growth in recent months, as of April 2024, Preschool Promise is at 96 percent enrollment, serving almost 5,000 children statewide.[48]

Baby Promise is now officially in statute as a publicly funded program, at least partially fulfilling a new federal requirement that states have programs for contracted slots for infants and toddlers.[49] The program currently serves the city of Reedsport as well as Coos, Crook, Curry, Douglas, Deschutes, Jefferson and Multnomah counties, with a total of 215 slots for babies and toddlers in 34 child care programs (a mixture of centers, Head Start programs, home-based programs and one exempt university provider). Between September 2023 and August 2024, the program supported care for 214 children.[50]

These programs provide child care businesses with more predictability in their enrollment and income and provide additional services that support provider sustainability. For example, Baby Promise providers are required to go through business management training, infant and toddler development training, and receive other environmental enhancements and technical assistance from their local Child Care Resource & Referral Agency (CCR&R) as part of their participation as a Baby Promise provider. In addition, preparing to participate in these programs requires that providers invest in their businesses. They must develop budgets and meet quality expectations in areas such as staff qualifications, assessments and screenings for children, and program growth and development plans. The three regions participating in Baby Promise have seen improvements in the amount and quality of care available, though most Oregon counties remain child care deserts.[51 52]

Continued challenges and opportunities: Capacity limitations remain a barrier to greater stabilization or family access to assistance.

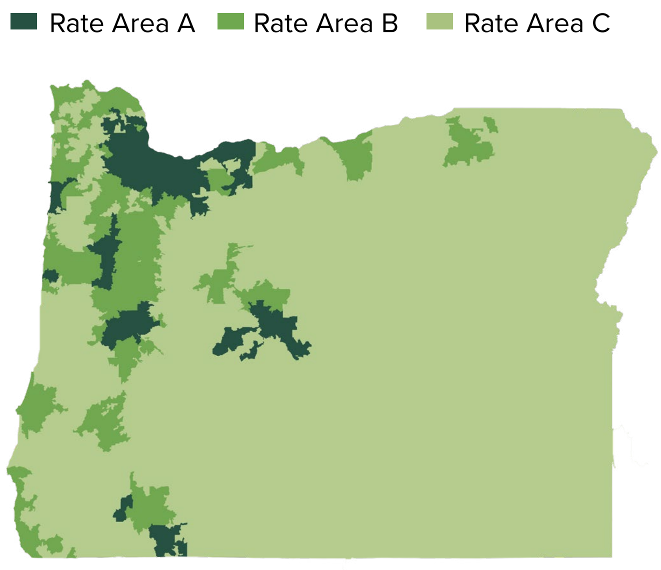
HB 3073 expanded ERDC eligibility to include more families, including parents who are in school. The bill also created more flexibility for families to support them in connecting to care over a longer timeframe; families are now eligible for their full 12-month certification period regardless of changes in circumstance. HB 3073 also expanded ERDC eligibility to children regardless of their legal/citizenship status, an important commitment beyond federal requirements. These changes expanded ERDC eligibility and resulted in an increase in participation. Between January and August 2023, over 4,000 families enrolled in the ERDC program, representing a more than 50 percent increase.[53]

46 Pratt, M. et al. (2020). Supply and Demand in Oregon: How Equitable is Child Care Access. Oregon State University. https://health.oregonstate.edu/early-learners/research/supply-anddemand-oregon-young-children
47 DELC, Early Learning Division. (2023). Preschool Promise Accountability Report. https://www.oregon.gov/delc/Documents/Preschool-Promise-Accountability-Report_Final.pdf
48 Oregon Department of Early Learning and Care Preschool Promise Dashboard. https://www.oregon.gov/delc/data/Pages/default.aspx#PSP
49 US Department of Health and Human Services. 2024 Child Care and Development Fund (CCDF) Final Rule Fact Sheet. https://www.acf.hhs.gov/occ/fact-sheet/2024-ccdf-final-rule-fact-sheet
50 Personal communication with Maidie Rosengarden Ed.D, May 23, 2024
51 Ibid
52 Pratt, M. and Sektnan, M. (2022). Oregon's Child Care Deserts 2022: Mapping supply by age group and percentage of publicly funded slots. Prepared for the Oregon Early Learning Division. https://health.oregonstate.edu/sites/health.oregonstate.edu/files/early-learners/pdf/research/oregons_child_care_deserts_2022.pdf
53 Stringer, G. (October 2 2023). Families face uncertain day care outlook as state spends last of federal funds. Oregon Capital Chronicle. https://oregoncapitalchronicle.com/2023/10/02/families-face-uncertain-day-care-outlook-as-state-spends-last-of-federal-funds/

ERDC expansion was effectively unfunded. Facing a budget shortfall of over $200 million, DELC paused ERDC enrollment for most families in late 2023 and established a waitlist in November 2023. This impacted families' access to ERDC, with cascading effects on programs in which families must also receive ERDC to participate.

While the funding committed to DELC during the 2024 legislative session narrowed its budget shortfall to serve families already enrolled in ERDC, available funding is insufficient to bring most families off of the current waitlist or resume the intended ERDC expansion. As a result, as of September 2024, the waitlist has grown to 8,100 families.[54]

Oregon ERDC Rate Areas



***NOTE:* *ERDC uses zip code to determine Rate Areas*

Vital processes and systems improvements are needed to improve access to ERDC and child care programs, including Baby Promise and Preschool Promise. These programs remain difficult for providers and families to navigate, with varying enrollment, eligibility and reporting requirements. Existing systems are prone to problems such as late payments, missing forms and other errors. The development and implementation of a new provider management system that incorporates payment has the potential to vastly improve both provider and family experiences. A new system will take time to develop but deserves prioritization, given the fiduciary responsibility involved.

Another example of needed systems improvement relates to the scope and access to Preschool Promise. This program supports families during the school year only, rather than for a calendar year. This leaves many families in need of affordable child care arrangements during the summer, while providers must scramble to fill short-term summer openings. For some providers, this results in loss of income. Another design limitation of Preschool Promise is that if a child is in care for a low number of hours, providers must bill at an hourly rate, which often results in a bigger gap between reimbursements from the state and the cost to provide child care.

Thousands of Oregon families are enrolled in ERDC but unattached to a child care provider. As of September 2024, 4,036 families enrolled in ERDC are not attached to providers, meaning that they qualify for the program but are not receiving benefits.[55] There are many potential reasons for this, including the challenges that families and qualified providers face in connecting with one another. This process is largely left to the proactive efforts of individual families and providers. Another challenge is limitations in available care. As of April 2024, there are nine counties that have fewer than 10 providers with at least one ERDC child in care, and three counties (Lake, Sherman and Giliam) with only two or three providers with at least one ERDC child in care.[56] It is also possible that the care available doesn't meet a family's needs—it can be too far

54 Oregon Department of Early Learning and Care. ERDC Program Data. Accessed November 20, 2024. https://www.oregon.gov/delc/data/Pages/default.aspx
55 Ibid.
56 Ibid.

away, not match needed hours of care, or otherwise not be a good fit. In other cases, providers may have openings that families don't know about or can't easily identify. Families and providers deserve support in closing this gap, which will require assistance from state and regional agencies—even if doing so will raise the costs to the state and may require a concerted effort.

Expanding access to contracted slot programs would help stabilize child care businesses and the families they serve, especially in rural communities. This could happen through expansion of programs such as Baby Promise, or by piloting additional contracted slot arrangements, such as with networks of providers (e.g., through shared service or microcenters). Programs such as Baby Promise show how this can benefit child care providers and families, particularly in rural communities. The 2022 Oregon Child Care Desert report estimated that over half of child care slots in rural counties are publicly (using both state and federal dollars) funded through contracted slot programs, whereas only about 20 percent of slots in urban counties are publicly funded. The report also notes that most counties not currently considered child care deserts would become child care deserts if not for their publicly funded slots for 3-4-year-olds (in programs such as Head Start, Oregon Pre-kindergarten and Preschool Promise).[57]

Efforts to build child care infrastructure could be extended to support providers' sustainability. Grant dollars to establish or expand child care businesses can provide an important initial boost to providers. Upcoming grant opportunities through Business Oregon will allow eligible providers access to funding for capital improvements such as renovations and repair; it is vital that this funding is accessible to providers in rural Oregon, which may have different needs than providers in urban areas.

Turnover is a persistent problem in early childhood education. Between 2018 and 2023, Oregon lost 16 percent of its child care workforce (defined here as child care workers and preschool teachers). Workers in this sector remain both underpaid and in demand, and child care businesses struggle to retain employees.[58] In 2024 and 2025, child care employees will receive annual $500 Oregon Child Care Workforce Recognition payments through the Oregon Center for Career Development as a result of CARES Act dollars.[59] These payments are small, short-term benefits. Regular, ongoing, operational or sustainability grants could be a valuable next step for programs struggling to retain staff and remain open and affordable, given current challenges. This is particularly important in rural Oregon, where home-based child care, in particular, needs greater incentivization and support.

Finally, policies and programs which compensate child care programs for planned professional development days, holidays and/or scheduled vacations could further stabilize the sector, while also supporting program quality and promoting educator well-being. Greater utilization of existing supports would be a step in the right direction. For example, Child Care Substitutes of Oregon is a fairly new program managed by The Research Institute at Western Oregon University, which provides qualified substitute care in many areas of the state. These substitutes are vetted, paid and managed by the program, thereby alleviating administrative burdens and costs for providers. Providers can also bill ERDC for planned closures, including for professional development.

57 Pratt, M. and Sektnan, M. (2022). Oregon's Child Care Deserts 2022: Mapping supply by age group and percentage of publicly funded slots. Prepared for the Oregon Early Learning Division.
https://health.oregonstate.edu/sites/health.oregonstate.edu/files/early-learners/pdf/research/oregons_child_care_deserts_2022.pdf
58 SRI International. (2024). 2024 *Oregon Talent Assessment*. Prepared for The Workforce and Talent Development Board and the Higher Education Coordinating Commission for the State of Oregon.
https://www.oregon.gov/highered/strategy-research/Documents/Reports/2024-talent-assessment.pdf?utm_medium=email&utm_source=govdelivery
59 OCCD. Oregon Child Care Workforce Recognition Payment Program. https://sites.google.com/pdx.edu/workforce-recognition?usp=sharing

Strategy 4

Support child care providers through shared services alliances

PROGRESS: Shared services alliances serve over one-third of Oregon counties.

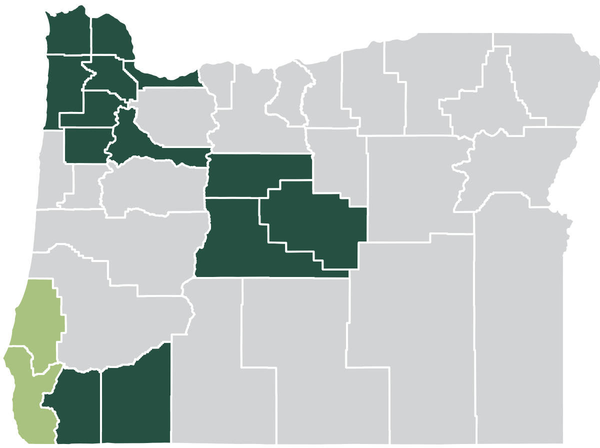
Shared services alliances stabilize and strengthen child care businesses by pooling administrative resources and technology while utilizing business coaches to promote sustainability. Shared services alliances provide child care businesses with business training, coaching, software and other centralized business administration services. These networks support early childhood education quality and provide professional development for early childhood educators. Shared services alliances are particularly valuable for home-based child care and small child care centers, given how difficult it is for these businesses to reach financial sustainability when working in isolation.

Oregon's first shared services alliance for child care providers was established in Coos and Curry counties in 2020 with funding from Oregon Community Foundation, The Ford Family Foundation and the Department of Early Learning and Care. This South Coast alliance inspired the establishment of a statewide network, the Oregon Child Care Alliance (OCCA), which launched in 2021 and is managed by Neighborhood House. OCCA was created through a collaborative design process with funding from The Ford Family Foundation and Oregon Community Foundation, who continue to fund Neighborhood House staffing, licenses for child care management software, evaluation and other related costs. The Department of Early Learning and Care participated in the design process and joined as a funder in the early stages, covering critical staffing costs for OCCA business coaches, who are housed within the regional Child Care and Referral agencies.

After working with educators in three pilot regions covering six counties, OCCA expanded to three additional regions in 2023, bringing the total counties served to 13—over one third of Oregon's counties.[60]

60 Leonard, K. & Reyes, N. (2023). Cultivating a Garden within the Child Care Ecosystem: Findings from the Oregon Child Care Alliance evaluation. Oregon Child Care Alliance. https://www.oregonchildcarealliance.org/community-impact/

21 of Oregon's counties currently do not benefit from shared administrative services



Oregon Child Care Alliance current services
Clatsop, Columbia, Crook, Deschutes, Jefferson, Josephine, Marion, Multnomah, Polk, Tillamook, Yamhill, & Washington Counties

South Coast Alliance
Coos & Curry Counties

As of May 2024, OCCA had 106 participating members, with more one third in rural communities. Of the 37 members in rural communities, seven are Spanish-speaking, and participate in OCCA in Spanish. As of early 2024, the South Coast Alliance has served an additional 19 child care businesses across Coos and Curry counties.

OCCA anticipates future growth as its three newest regions build provider cohorts and Neighborhood House uses its Child Care Capacity Building Grant to provide business accelerator training to new child care providers. This will create a broader pathway for English- and Spanish-speaking providers to enter OCCA. In 2024, the Coos/Curry alliance will formally merge with OCCA, which continues to evolve in response to educator needs and is actively working to strengthen coaching and business support.[61]

> **Continued challenges and opportunities:** The Oregon Child Care Alliance is growing but needs funding to provide equitable services to child care businesses.

Long-term, stable and adequate funding is needed to ensure the stability and growth of OCCA to serve the entire state, and to support OCCA's ability to meet the unique needs of child care businesses in different communities. The Oregon Child Care Alliance has limited capacity to serve its current regions; these limitations are primarily due to funding and coaching capacity. For example, while English-speaking and Spanish-speaking providers can be served in their primary language, funding does not yet allow for coaches who can support providers in other languages, which creates inequitable access to OCCA.

Participation in OCCA is not yet available in all Oregon counties, despite many counties expressing interest. As of December 2023, 10 child care business owners in rural communities are on the OCCA waitlist, largely from counties not yet served. Expansion of OCCA will take time. While early plans anticipated OCCA would potentially expand into a few regions each biennium, this is largely dependent on continued DELC funding of regional coaching capacity. As of spring 2024, DELC anticipates not being able to fund expanded coaching capacity in the next biennium, due to budget projections. This means that the earliest OCCA can expand again without alternative funding for coaches is 2027.

61 For more about OCCA's progress and lessons learned, visit https://www.oregonchildcarealliance.org/community-impact/

OREGON Child Care

Strategy 5

Adjust licensing regulatory to support new and mixed models of care

PROGRESS: The micro-center pilot established by SB 1040 in 2023 is an important first step to shift Oregon's regulatory framework to support additional child care program models.

Existing child care models don't always meet families' needs, and rural providers face additional issues. There is an acute need for new models of child care in rural communities. In many rural places, the number of families with young children is small, variable, and spread over large geographic areas. Typically, child care centers are a better fit for communities with more concentrated populations. In many rural communities, available home-based care is also insufficient, an issue exacerbated by the current housing statewide crisis. Housing shortages limit the feasibility of establishing new certified in-home care for some providers, such as those who are renters or live in multi-family dwellings.

Other models of child care exist which could meet the needs of more families, especially in rural communities. One example is micro-centers, which typically serve children of mixed ages in one or more classrooms. Micro-centers combine some features of home-based and center-based care and have the potential to be a cost-efficient way to expand child care supply while providing high-quality care.

Existing child care licensing and quality rules are designed for small, home-based care or large child care centers. The current regulatory framework needs to be modified to support new categories of care such as micro-centers, with standards appropriate to the program size and business model. These businesses cannot bear the burdensome requirements of child care center licensure or the costs of operating as a center.

What is a micro-center?

In some ways, micro-centers function like home-based care: They are often similar in size or slightly larger than home-based child care, and often serve mixed-aged children. But micro-centers differ from home-based care in a few key ways. Micro-centers are usually in non-residential settings, often sharing space with an employer whose employees benefit from having child care on site. Micro-centers are often provided with space at no or very little cost, and may receive other economic benefits, including coverage of other facility-related and overhead costs and steady enrollment. Often micro-centers operate as a network of small classrooms (embedded in schools, hospitals or office buildings) and are managed through a central hub which helps control administrative costs.

Early steps are underway in Oregon to determine what regulations would be most safe and supportive for these types of programs. Senate Bill 1040, passed in the 2023 legislative session, directed DELC to establish a pilot for micro-centers. The pilot will support three child care programs (at least two of which are likely to be rural) serving three to 30 children each, at residential or nonresidential facilities. The pilot will help the state understand the regulatory changes needed for staff qualifications, facility requirements, age groups, and ratios for micro-centers (and potentially similar models). Ideally this will result in less burdensome regulations for small-capacity child care providers, while ensuring high-quality learning opportunities across the state.

Applications for pilot sites opened in April 2024, marking an important milestone toward expanding sustainable child care business models, especially in underserved areas of rural Oregon. The pilot period will run from June 2024 to June 2025. While it's too early to assess the pilots' success, or to determine whether learnings can be applied to support more flexible or varied child care business models, a report on the pilot's progress and lessons learned is due to the Legislature in September 2025.

Continued challenges and opportunities: Promising practices from other states can help Oregon implement regulatory changes while minimizing unintended consequences.

As Oregon explores meeting the needs of micro-centers and expanding available child care models, there are lessons to learn from other states. A report to support the micro-center pilot's implementation is expected later this year, and this report will provide the state and pilot programs with insights and advice from other states. Oregon should be careful not to replicate existing burdens and focus on minimizing barriers to establishing these types of programs.

Promising future approaches may also include connecting micro-centers to other workforce building or retention efforts, such as business training or shared services strategies, to further support business sustainability and ideally minimize administrative costs. These programs need business development support and resources to encourage financial viability in order to focus on providing high-quality care to Oregon's children.

Additional considerations

Given the challenges outlined in this brief and a lack of progress at the federal level toward child care affordability, Oregon is likely to face increased pressure to preserve and improve early childhood education in the coming years. This is especially critical given the impending fiscal cliff and projections that federal investments will likely plateau or decrease in future years, rather than increase to meet need.

The Center for American Progress[62] outlines several actions that states should consider, each of which would benefit rural child care programs and communities. These actions include:

- Promote or develop more equitable, adequate pay for early childhood educators.
- Incentivize the development or expansion of programs in identified child care deserts.
- Explore ways to diversify early childhood education funding such as through lottery dollar investment, inclusion in school funding formulas, or sin taxes.

Recent funding, legislation and Raise Up Oregon goal setting have also created new opportunities, including:

- Child care workforce development efforts, including business accelerator programs to help launch new child care businesses sustainably through training and support with business management.
- Ongoing efforts to learn more about the needs of early childhood educators, including work underway by First Children's Finance and research mandated through SB 2991 (2023), should also help the state determine how to further reduce barriers to professionals entering and staying in the child care workforce.[63]
- Tackling issues related to child care facilities through adjustments to zoning, licensing requirements and other barriers, as well as exploring colocation of child care in housing developments. Additional funding for in-home child care providers would help bolster ongoing efforts to support child care infrastructure through HB 3005 (2023).[64]
- Integrating child care into state and federal workforce development investment programs, such as through implementation of the CHIPS and Science Act, so that child care is accessible and affordable. HB 4098 (2024) created the Oregon CHIPS Child Care Fund, an important step to grow child care supply and provide assistance for the CHIPS workforce.[65] Along with the micro-center pilot, this is a valuable opportunity to explore private-public partnerships to enhance a healthy child care ecosystem.
- Finally, new Child Care and Development Fund regulations[66] released in spring 2024 include new requirements and guidance related to a wide range of policies, including those related to contracts for infants and toddler care, provider rate allowances (as noted in this report), and a new definition for what counts as a "major renovation," which should introduce greater flexibility in what is eligible for grant program support.

62 Lovejoy, A. (2023). Top 5 Actions Governors Can Take to Address the Child Care Shortage. Center for American Progress. https://www.americanprogress.org/article/top-5-actions-governors-can-take-to-address-the-child-care-shortage/
63 House Bill 2991 https://olis.oregonlegislature.gov/liz/2023R1/Downloads/MeasureDocument/HB2991/Enrolled
64 House Bill 3005 https://olis.oregonlegislature.gov/liz/2023R1/Downloads/MeasureDocument/HB3005/Enrolled
65 House Bill 4098 https://olis.oregonlegislature.gov/liz/2024R1/Downloads/MeasureDocument/HB4098/Enrolled
66 *US Department of Health and Human Services, Office of Child Care. 2024 Child Care and Development Fund (CCDF) Final Rule Fact Sheet.* https://www.acf.hhs.gov/occ/fact-sheet/2024-ccdf-final-rule-fact-sheet

Conclusion

Oregon has made tangible progress since publication of the initial Child Care in Rural Oregon Report in 2020. This includes advancements in supporting rural families and the child care businesses that serve them. There are a number of promising steps on the horizon to further stabilize and strengthen the child care ecosystem, especially in rural communities.

Moving forward, the state will need sufficient long-term funding for its child care sector to invest adequately in the next generation of Oregonians and their families. Given current budget constraints, the most realistic course of action may be to protect recent advancements to accessibility and equity while continuing to make incremental improvements to the current system.

Maintaining the advances made in recent years and building on the momentum underway are essential. Continued efforts to align and streamline policies and processes, and specific attention to removing systemic barriers, are necessary for child care businesses to not just survive but thrive, providing the high-quality, nurturing care that Oregon's children deserve.

Glossary

American Rescue Plan Act (ARPA) (2021): Historic federal investment in early childhood education distributing $24 billion in federal funding to support the child care sector, including $400 million in funding for Oregon. https://www.congress.gov/bill/117th-congress/house-bill/1319/text

Baby Promise: A publicly-funded program in Oregon that provides free child care for infants and toddlers from low-income families. https://www.oregon.gov/delc/programs/pages/baby-promise.aspx

Department of Early Learning and Care (DELC): Oregon's centralized state agency for its early learning system. DELC is a combination of its Early Learning Division (formerly under the Department of Education) and Employment Related Day Care program (formerly under the Department of Human Services). DELC was established by the legislature in 2021 and launched in July 2023.

Coronavirus Aid, Relief, and Economic Security Act (CARES Act): Federal legislation and funding to provide emergency assistance and health care response for individuals, families, and businesses affected by the 2020 coronavirus pandemic. https://www.congress.gov/bill/116th-congress/senate-bill/3548/text

Certified family child care: A child care facility certified to care for no more than 16 children and located in a building constructed as a single family dwelling. https://www.oregon.gov/delc/providers/pages/certified-family.aspx

Child Care for Oregon: An advocacy effort developed by a broad coalition of Oregon nonprofits, community-based organizations and unions in 2020 aiming to make child care equitable, accessible and affordable to Oregonians. https://childcarefororegon.org/

Child Care Resource & Referral services/agencies (CCR&Rs): Regional organizations that provide a wide range of services to support children in early childhood education settings. CCR&Rs provide training, development, and navigation services for early childhood educators to promote retention of a high-quality, diverse early learning workforce, and coordinate with other members of the early learning ecosystem.

Child Care and Development Fund (CCDF): A federal and state partnership that provides funding for programming administered by states, territories and tribes including the Employment-Related Day Care subsidy program. https://www2.ed.gov/about/inits/ed/non-public-education/other-federal-programs/hhs.html

Child care desert: A census tract with more than 50 children under age 5 that contains either no child care providers or so few options that there are more than three times as many children as licensed child care slots. https://www.americanprogress.org/series/child-care-deserts/

Child care substitutes of Oregon: A program managed by The Research Institute at Western Oregon University, with funding from the Department of Early Learning and Care, that provides up to 50 hours of paid, qualified substitute care to qualifying child care providers. https://childcaresubsor.org/

Collective bargaining: A process by which people, through unions, negotiate contracts or terms of employment with their employers.

Copay: A payment made by families (in addition to and as a requirement of) receiving Employment-Related Day Care benefits.

Early Learning Council (ELC): An oversight and coordination group of government-appointed members who collectively provide policy direction and rulemaking for Oregon's early learning ecosystem and programs administered by the Department of Early Learning and Care.

Employment-Related Day Care (ERDC): Subsidy program that provides financial assistance for child care to low-income Oregon families who are working, in school, or receiving Temporary Assistance for Needy Families.

Market price: The prices child care providers charge for their services; often based largely on what families can afford and/or are willing to pay.

Micro-center: A new child care configuration that functions like home-based care (e.g., small size, mixed-age groups) but are typically in non-residential settings. Micro-centers are ideally not required to meet all licensing requirements of a child care center.

Oregon child care workforce recognition payments: Annual payments available to Oregon child care providers in 2024 and 2025 through funding from the Oregon legislature general fund. The intention is to thank child care providers for their hard work and help keep them in business and providing care. https://sites.google.com/pdx.edu/workforce-recognition?usp=sharing

Overage: The fees charged by child care providers to families in addition to those covered by Employment-Related Day Care subsidy reimbursement rates and family copayments.

Preschool Promise: A free, high-quality preschool program available to Oregon families who are living at or below 200 percent of the federal poverty level in Oregon. The program serves children ages 3-4 in a "mixed-delivery model," meaning that the program is operated in a variety of settings and with a variety of sponsor organizations. https://www.oregon.gov/delc/programs/pages/preschool-promise.aspx

Registered family child care: A child care facility that is licensed to care for no more than 10 children and is located in the provider's residence. https://www.oregon.gov/delc/providers/pages/registered-family.aspx

Rural: Areas that are not urban or adjacent to urban areas. Open country and settlements with fewer than 5,000 residents and fewer than 2,000 housing units. Many counties, even those with large cities, contain a combination of urban and rural populations. https://www.ers.usda.gov/topics/rural-economy-population/rural-classifications/what-is-rural/

Shared services alliance: A networked collaborative aiming to stabilize and strengthen child care businesses by pooling administrative resources and technology. Shared services alliances often provide business coaching, training, and other services to support child care business management. Oregon's statewide shared services alliance is the Oregon Child Care Alliance.

State Legislation

- **HB 3073 (2021):** Establishes the Department of Early Learning and Care as a new state agency coordinated by the Early Learning Council. Expands families' ERDC eligibility and lowers family copayments. Shifts ERDC payment to providers from attendance-based toward enrollment-based and mandates a shift to from market-based to cost-based reimbursement. https://olis.oregonlegislature.gov/liz/2021R1/Downloads/MeasureDocument/HB3073/B-Engrossed
- **HB 3005 (2023):** Allocates $50 million to Business Oregon for the new Child Care Infrastructure Fund, a grant and loan program for new construction, repairs, renovations, modernizations, retrofitting, property acquisition and planning projects. The first $25 million will be distributed to recipients beginning in summer 2024, and the remaining $25 million in spring 2025. Also allocated $5 million to DELC to help providers access the fund, and over $11 million for shovel-ready projects. https://olis.oregonlegislature.gov/liz/2023R1/Downloads/MeasureDocument/HB3005/Enrolled
- **SB 2991 (2023):** Allocates $300,000 to the Department of Early Learning and Care to study barriers to a high quality early childhood workforce, and provide recommendations on how to grow the workforce. https://olis.oregonlegislature.gov/liz/2023R1/Downloads/MeasureDocument/HB2991/Enrolled
- **SB 1040 (2023):** Requires the Department of Early Learning and Care create a Micro-Center Pilot Program, which will help small capacity child care programs by providing resources and technical assistance. The pilot's primary goal is to identify barriers to licensing that make it harder for microcenters to operate in underserved communities. https://olis.oregonlegislature.gov/liz/2023R1/Downloads/MeasureDocument/SB1040/A-Engrossed
- **HB 4098 (2024): E**stablishes the CHIPS Child Care Fund, and directs the Oregon Business Development Department to develop and administer a child care infrastructure grant program for the construction workforce. https://olis.oregonlegislature.gov/liz/2024R1/Downloads/MeasureDocument/HB4098/Introduced

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