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# Childcare Center Feasibility Study

## Grant County Region

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January 2022

Prepared for Grant County Childcare Committee

Final Report

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# 1. Background and Purpose

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The unaffordability and limited availability of quality childcare have long challenged working parents, parents seeking employment, and, by extension, employers seeking to recruit and retain employees who have children. Availability can be particularly limited in rural areas such as Grant County, Oregon, where low population densities create additional barriers to the financial viability of center-based childcare. Childcare “deserts,” where the supply of childcare falls far short of need, can also limit economic development by deterring employers from choosing to locate in regions with few amenities for working parents.

Employers in and around John Day, Oregon, report facing significant challenges in workforce attraction and retention related to the lack of available and affordable childcare. Recognizing these workforce challenges, a recently formed steering committee expressed interest in a feasibility study that addresses the potential funding sources and operating costs of a childcare center located in John Day.

This feasibility study explores options for the proposed childcare center and is designed to help the steering committee determine the best model for additional childcare in the region. For the study, ECONorthwest conducted independent market research and relied on guidance from the steering committee to develop two prototypes for the center. This report assesses the landscape of available childcare in the Grant County area, the financial viability of the potential center prototypes, and presents recommendations for near-term next steps.

## 2. Market Assessment

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Children and parents in Grant County have limited childcare options. The county is a childcare desert (i.e., fewer than 33 percent of that county’s children have access to a regulated childcare slot). According to a study conducted by the Oregon Early Learning Division in 2020, only 14 percent of children ages 0-5 have access to a regulated childcare slot in Grant County and only 2 percent of Grant County’s children ages 0-2 can access a slot.<sup>1</sup>

The lack of childcare providers in the area may partially explain Frontier Hub’s 2014 findings that 75 percent of children ages 0-6 in Harney and Grant counties were at risk of arriving to kindergarten unprepared.<sup>2</sup> Not only could the lack of childcare providers in Grant County have detrimental effects on children, but it could also interrupt their parents’ ability to maintain employment and provide for their families.

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<sup>1</sup> Pratt, Megan and Michaella Sektnan. 2021. “Oregon’s Child Care Deserts 2020: Mapping the Supply by Age Group and Percentage of Publicly Funded Slots.” Oregon Early Learning Division.

<sup>2</sup> Frontier Hub. 2014. “Draft Frontier Oregon Services HUB Five Year Strategic Plan for the Frontier HUB of Harney and Grant Counties, 2014-2019.”

Working parents need access to childcare. Businesses employing these parents benefit from increased provision of childcare as well. Research from the U.S. Chamber of Commerce Foundation demonstrated that company provision of childcare assistance has the potential to decrease employee absences by 30 percent and job turnover by 60 percent.<sup>3</sup>

Other research has shown that U.S. businesses lose approximately \$4.4 billion in revenue annually due to employee absences that were the result of lack of childcare.<sup>4</sup> About 45 percent of parents are absent from work at least once over a 6-month period because of childcare challenges and around \$28.9 billion in wages are lost annually due to working families in the U.S. who have limited affordable childcare and paid family and medical leave.

In addition, the COVID-19 pandemic has compounded issues around childcare access and reshaped some demographic trends, at least in the short run. During the COVID-19 pandemic, rural areas began to receive an influx of migration from urban areas. Gross migration flows from large urban areas to small rural areas increased by 9 percent from April 2020 to December 2020, while flows from rural areas to urban areas decreased by 9 percent.<sup>5</sup> Grant County's population is not expected to grow in the coming decades, but childcare provision will be important for retaining current residents and attracting new families.

Rural areas have also experienced changes in employment trends due to the pandemic that may impact the need for childcare provision. Compared with urban areas, rural areas have seen a smaller decrease in employment and the smallest increase in remote work. For example, 38 percent of urban employed adults worked remotely in May 2020, compared with 20 percent of rural employed adults. This percentage decreased to 8 percent in February 2021 for rural employed adults.<sup>6</sup> With fewer remote workers and higher employment levels than most other regions of the country, rural areas like Grant County may experience more pressure to provide childcare for working parents.

Parental preferences play an important role in determining whether existing or planned childcare options will effectively meet a community's needs. A study published in the *Children and Youth Services Review* analyzed detailed socioeconomic and childcare usage data for several hundred Oregon households to predict which type of childcare parents would choose. The

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<sup>3</sup> Keller, Tom. 2021. "Lessons from the Pandemic. Companies Offering Childcare Benefits Help Increase Retention and Recruitment". St. Louis Business Journal. Retrieved from <https://www.bizjournals.com/stlouis/news/2021/02/04/lessons-from-the-pandemic-companies-offering-chil.html>

<sup>4</sup> Childcare Aware of America. 2017. "Parents and the High Cost of Child Care." Retrieved from [https://www.childcareaware.org/wp-content/uploads/2017/12/2017\\_CCA\\_High\\_Cost\\_Report\\_FINAL.pdf](https://www.childcareaware.org/wp-content/uploads/2017/12/2017_CCA_High_Cost_Report_FINAL.pdf)

<sup>5</sup> Whitaker, Stephan. 2021. "Migrants from High-Cost, Large Metro Areas during the COVID-19 pandemic, their destinations, and How Many Could Follow". Federal Reserve Bank of Cleveland. Retrieved from <https://www.clevelandfed.org/newsroom-and-events/publications/cfed-district-data-briefs/cfddb-20210325-migrants-from-high-cost-large-metro-areas-during-the-covid-19-pandemic.aspx>.

<sup>6</sup> Brooks, Matthew M., J. Tom Mueller, and Brian C. Thiede. 2021. "Rural-Urban Differences in the Labor-Force Impacts of COVID-19 in the United States." *Socius: Sociological Research for a Dynamic World*. 7 (1-12). Retrieved from <https://journals.sagepub.com/doi/pdf/10.1177/23780231211022094>.

study found that families living in rural areas were more likely to select informal care (through neighbors or friends or in-home non-relative childcare providers) than center care.<sup>7</sup>

Moreover, the authors found that parents with higher levels of education were more likely to select center care than other options, while parents with lower levels of education were more likely to choose informal care over other options. Parents who chose informal care did so because they prioritized trust, safety, affordability, convenient location, and flexible hours. Therefore, there is potential that parental preferences within Grant County may put center care at a disadvantage relative to other types of childcare.

## Needs Assessment and Current Care Landscape

ECONorthwest assessed the landscape of childcare providers within Grant County, conducted stakeholder interviews, and reviewed the existing research on childcare supply and demand to better understand the community's needs and the potential market for a new childcare center.

The steering committee and stakeholder interviewees described several important characteristics of the potential childcare center. Most importantly, the center should serve children ages 0 to 5, and care for infants and toddlers should be emphasized. Committee members also expressed an interest in care that was more structured and education-based.

Steering committee members, concerned parents, and other interviewed stakeholders also identified some of the largest challenges a new center would face, including finding, retaining, and paying staff, and charging enough tuition to keep the center open. Committee members also pointed out that the county's low population density and the fact that the center does not yet have a location selected would pose additional challenges.

Based on our research, we estimate that there are between 10 to 14 childcare providers operating in Grant County and that there are between 140 to 170 childcare slots available. We based this range on a survey of existing providers in the area and Oregon Child Care Research Partnership's 2020 report on the estimated supply of childcare in Oregon, which estimated that there were 12 childcare providers in Grant County offering a total of 144 slots.<sup>8</sup>

Most of these slots, however, are for children ages 3 and older. The Oregon Child Care Research Partnership estimates that while available slots could serve 75 percent of children aged 3 to 5 in Grant County, available slots could serve only 3 percent of children aged 0 to 2. Grant County is also undersupplied in regulated childcare, with available slots able to serve 2 percent of 0- to 2-year-olds and 26 percent of 3- to 5-year-olds.

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<sup>7</sup> Weber, Roberta B., Deana Grobe, and Ellen K. Scott. 2018. "Predictors of low-income parent child care selections." *Children and Youth Services Review* 88 (528-540).

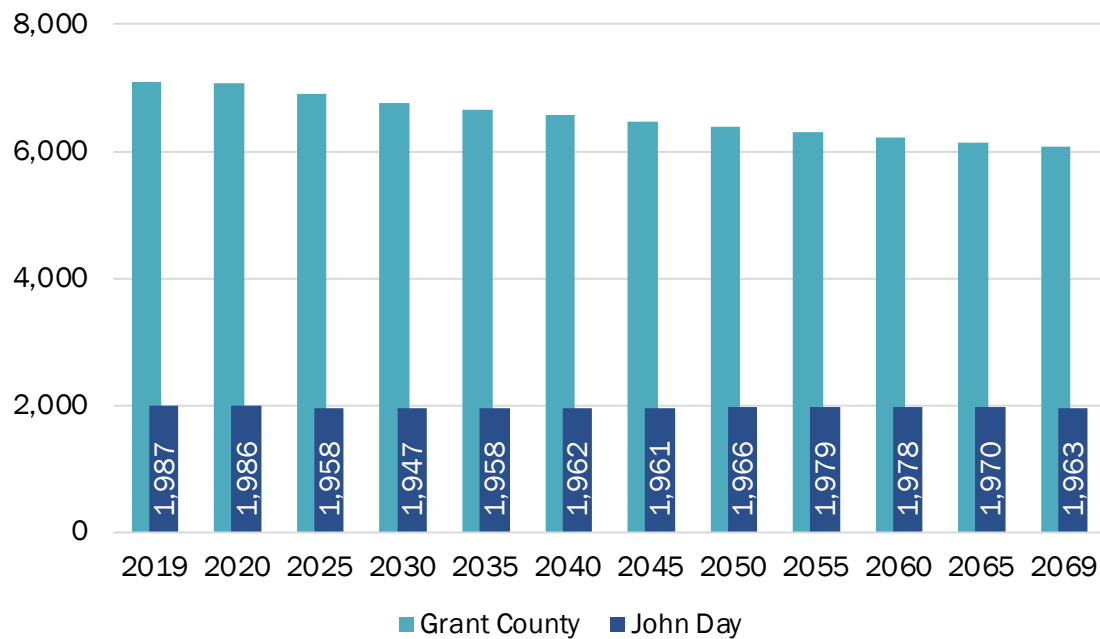
<sup>8</sup> Oregon Child Care Research Partnership. 2021. "2020 Estimated Supply of Child Care and Early Education Programs in Oregon."

## Potential Market for Center

Anecdotal evidence and available data indicate that there is need for additional childcare slots in Grant County. Care for infants and toddlers and more regulated slots are especially needed. However, many factors will influence the uptake at a new childcare facility including population growth, tuition costs relative to family incomes, and other demographic factors.

Grant County is one of the state's least populous counties. According to Portland State University, Grant County had a population of 7,067 people in 2020. Grant County is relatively remote with a population density of 1.6 people per square mile.<sup>9</sup> However, much of the county's population (28 percent in 2020) is concentrated in John Day. Exhibit 1 below shows Grant County and John Day's current and projected population through 2069.

EXHIBIT 1. PROJECTED POPULATION, GRANT COUNTY AND JOHN DAY, 2019 – 2069



Data source: Portland State University population forecasts

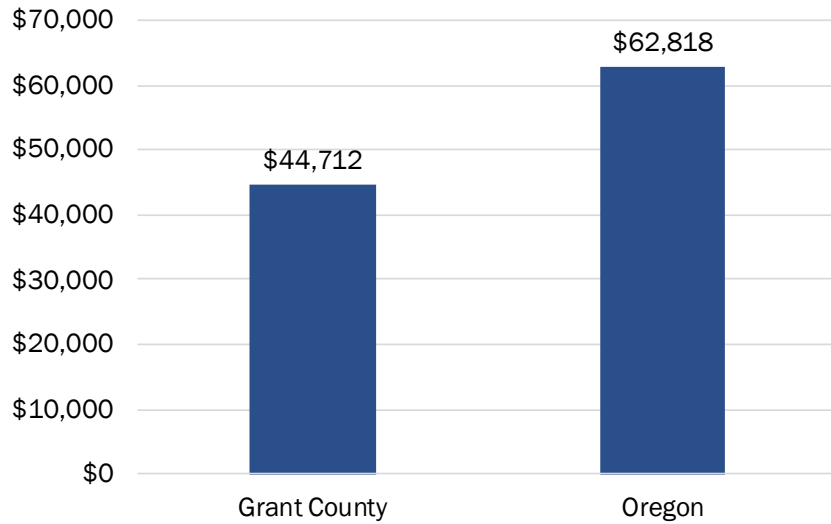
Grant County's population is expected to shrink nearly 15 percent from now to 2069. The population for the city of John Day is expected to remain reasonably constant over the next 50 years indicating that Grant County's population is likely to grow more concentrated in John Day in the years to come.

Socioeconomic status has a bearing on childcare demand and on what constitutes affordable tuition for childcare. Median household incomes in Grant County are well below that of the state of Oregon. Exhibit 2 compares the median household income for Grant County to the median household income in the state in 2019.

<sup>9</sup> U.S. Census Bureau 2019 Grant County Quick Facts



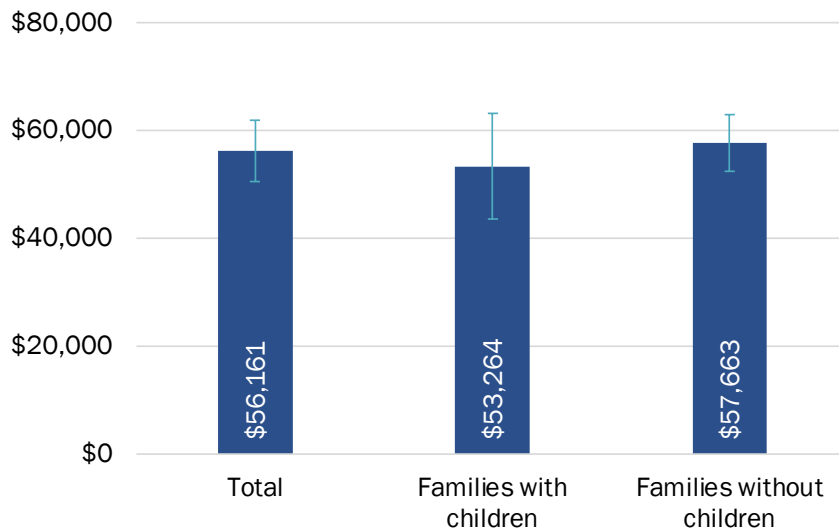
## EXHIBIT 2. MEDIAN HOUSEHOLD INCOME, GRANT COUNTY AND OREGON, 2019



Data Source: 2019 ACS 5-Year Estimates Subject Tables. Note: A household consists of all the people who occupy a housing unit, including those living alone.

Grant County's median household income is 29 percent lower than the state's and the U.S. Census Bureau estimates that 15 percent of Grant County residents are in poverty compared to 11 percent of Oregonians overall. However, Grant County's cost of living is also lower than many other parts of the state.<sup>10</sup> Exhibit 3 below shows family incomes by the presence of children in the home. Families in Grant County with children have similar, albeit potentially lower, incomes than those without children.

## EXHIBIT 3. MEDIAN FAMILY INCOME BY FAMILY TYPE, GRANT COUNTY, 2019

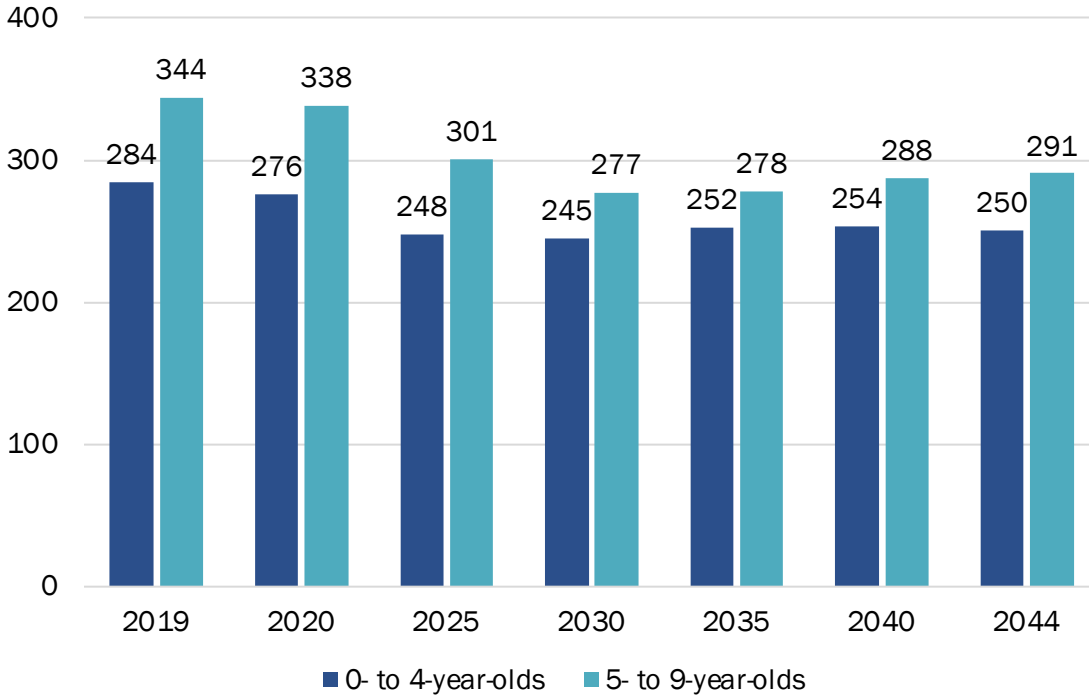


Data Source: US Census Bureau. American Community Survey 2019 five-year estimates, table B19125. Note: A family group is any two or more people (not necessarily including a householder) residing together, and related by birth, marriage, or adoption. Families do not include people living alone.

<sup>10</sup> MIT Living Wage Calculator for Grant County and state of Oregon. Retrieved from <https://livingwage.mit.edu/states/41/locations>.

The current and future population of Grant County children will also influence both tuition rates and the new center’s capacity. Exhibit 4 shows the current and projected population of 0- to 4-year-olds and 5- to 9-year-olds in Grant County.

EXHIBIT 4. PROJECTED POPULATION OF CHILDREN AGES 0 TO 9, GRANT COUNTY, 2019–2044



Data source: Portland State University population forecasts

In 2020, Portland State University estimated that there were 276 0- to 4-year-olds in Grant County. This number is expected to fall somewhat in the near-term but then remain steady at around 250 through the next 20 years.

In the 2017 Growing Tree business plan, the authors estimated that there were 350 children aged 0- to 5-years-old in Grant County and that 125 (36 percent) of them lived in the John Day area. The U.S. Census Bureau estimates that were between 100 to 246 children under the age of five living in John Day in 2019.

Not all parents, especially parents of infants and toddlers, will choose to place their children in childcare. To account for this, we assume that 80 percent of 3- to 5-year-olds would be enrolled in childcare in Grant County were the option available to their families and that 50 percent of 0- to 2-year-olds would be enrolled were the option available to their families. For the sake of simplicity, this analysis assumes that Grant County children are distributed evenly across the 0 to 5 age bracket.

Excluding slots set aside for older children, Oregon Child Care Research Partnership’s 2020 report on the estimated supply of childcare in Oregon<sup>11</sup> estimates that there are 128 childcare slots for children aged 0 to 5 in Grant County. Of these, 46 are regulated slots. Exhibit 5 applies ECONorthwest’s assumptions to produce a basic estimate of needed additional slots in Grant County.

EXHIBIT 5. ESTIMATED NEEDED SLOTS BY CHILDCARE TYPE AND AGE GROUP, GRANT COUNTY, 2020

	All types of childcare			Regulated childcare		
	Aged 0 to 2	3 to 5	Total 0 to 5	Aged 0 to 2	3 to 5	Total 0 to 5
Current available slots	5	123	128	4	42	46
Max. assumed enrollment	83	88	171	83	88	171
Estimated need	78	-35	43	79	46	125

Data source: Oregon Child Care Research Partnership; ECONorthwest. Note: These slots are for all types of care, including full- and half-day programs, and early education programs, as defined by the Oregon Child Care Research Partnership.

As indicated by the steering committee and ECONorthwest’s stakeholder interviews, the greatest need for additional childcare slots is for infants and toddlers. When considering all types of care, Grant County may have a surplus of available slots for children aged 3 to 5. However, when considering only regulated care, Grant County has an estimated need for 79 additional slots for children aged 0 to 2 and 46 additional slots for children aged 3 to 5.

In addition, the slots in Exhibit 5 include all types of childcare and early education programs (including those that are part day). Most slots in Grant County are half-day or school-day slots. Only the Growing Tree and Grant County Child Care Center (Bright Beginnings) offer full-day care and no care is available on weekends. Grant County has a specific need for additional full-day childcare slots.

Finally, this analysis includes the whole of Grant County—a larger market area than the proposed center would be likely to capture—because of data limitations that prevent more-granular analysis. Since many of Grant County’s childcare providers are concentrated around John Day and Canyon City, the overall need for childcare may be somewhat less pronounced in those areas. However, the estimated need for care for infants and toddlers—and for regulated full-day care for all ages 0-5—is high throughout the region, including in John Day.

## Strengths, Weaknesses, Opportunities, and Threats

The needs assessment establishes that there likely is need for additional childcare slots in Grant County, particularly for infants and toddlers. However, many factors will influence whether this need translates into demand for the proposed center. These include tuition rates, the quality of care, how well the center is advertised, and parents’ willingness to drive to the center’s

<sup>11</sup> Oregon Child Care Research Partnership. 2021. “2020 Estimated Supply of Child Care and Early Education Programs in Oregon.”

location. The following are potential strengths, weaknesses, opportunities, and threats related to a new childcare center in Grant County:

### Strengths

- There is high potential demand for a center offering care for infants and toddlers and for a center offering more educational opportunities, according to conversations with the steering committee, Grant County parents, and ECONorthwest research.

### Weaknesses

- Childcare is an extremely challenging industry. Operating in Grant County poses additional challenges due to the county's sparse population and low incomes relative to the state.
- The center would likely need to rely on outside contributions from public or private funders and/or cater to middle- to high-income families in Grant County to remain financially viable.
- Rural and low-income families and parents working non-traditional hours are less likely to use center-based childcare.<sup>12</sup>

### Opportunities

- Grant County's population may become more concentrated in John Day in the future, which could increase demand for childcare services in the area.
- There are currently very few providers offering care for infants operating in Grant County.
- New provisions proposed by the Biden Administration and legislation passed by the state may be able to offer support for the new center.

### Threats

- Grant County's population is projected to decline in the coming decades; however, the county's population of children is expected to remain relatively constant between 2025 and 2044.
- The COVID-19 pandemic could continue to hamper the operation of childcare facilities over a long period of time.
- Inflation and rising costs of childcare in the future may create additional budgetary issues for the center and affordability issues for parents.

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<sup>12</sup> Weber, Roberta B., Deana Grobe, and Ellen K. Scott. 2018. "Predictors of low-income parent child care selections." *Children and Youth Services Review* 88 (528-540).

### 3. Financial Feasibility

Based on feedback from the steering committee, stakeholder interviews, market research, and work previously completed in the 2017 Growing Tree business plan, ECONorthwest developed two prototypes to model the proposed center’s operating and capital costs for a single year.

The study models both prototypes at full scale to help the steering committee understand the financial commitment that will be needed to sustain the childcare center in a typical year. There will be additional costs related to start-up, licensing, and ramp up which are discussed later in this report.

The prototypes differ in the mix of ages served. Both prototypes focus on providing structured, center-based care with an educational component. The basic assumptions underlying each prototype are described below. The assumptions were informed using input from the steering committee, data on existing providers in Grant County, and data on childcare centers in the state generally. To the extent possible, the prototypes explicitly recognize the requirements of OAR 414-300-0000 through 414-300-0415, which lay out the requirements for certified childcare providers operating in the state.<sup>13</sup>

EXHIBIT 6. BASIC ASSUMPTIONS FOR PROTOTYPES A AND B

	Prototype A: Childcare for ages 0 to 3	Prototype B: Childcare for ages 0 to 5
<b>Mix of children served</b>	Maximum capacity of 18 children: <ul style="list-style-type: none"> <li>▪ 8 infants (6 weeks to 23 months)</li> <li>▪ 10 toddlers (24 to 35 months)</li> </ul>	Maximum capacity of 19 children: <ul style="list-style-type: none"> <li>▪ 4 infants (6 weeks to 23 months)</li> <li>▪ 5 toddlers (24 to 35 months)</li> <li>▪ 10 preschool age (36 months to 4 years and 11 months)</li> </ul>
<b>Needed staffing</b>	5.5 to 6 full-time equivalent staff (40 hr. work week): <ul style="list-style-type: none"> <li>▪ 1 director / lead teacher</li> <li>▪ ~5 childcare workers</li> </ul>	4.5 to 5 full-time equivalent staff (40 hr. work week): <ul style="list-style-type: none"> <li>▪ 1 director / lead teacher</li> <li>▪ 1 preschool teacher</li> <li>▪ ~3 childcare workers</li> </ul>
<b>Wages</b>	Director/ lead teacher: \$20.00/hr Childcare worker: \$12.50/hr (minimum wage)	Director/ lead teacher: \$20.00/hr Preschool teacher: \$15.00/hr

<sup>13</sup> Oregon Department of Education Early Learning Division. Chapter 414, “Division 300 Certified Child Care Centers.” Retrieved from <https://secure.sos.state.or.us/oard/displayDivisionRules.action?selectedDivision=1908>

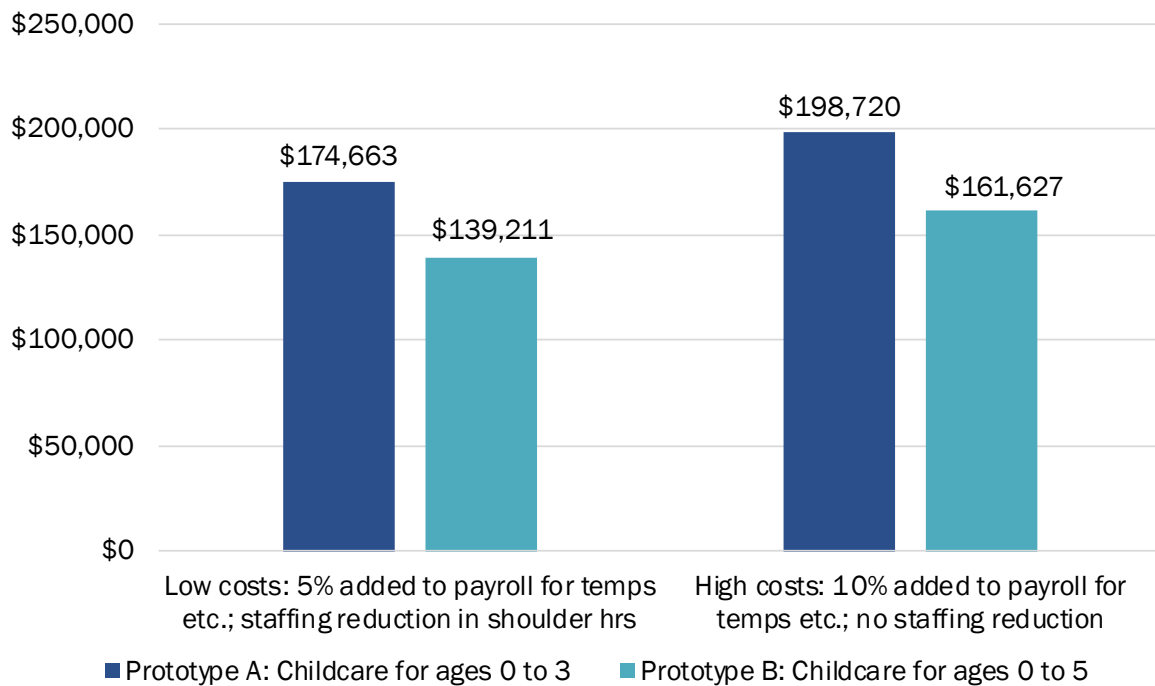
		Childcare worker: \$12.50/hr (minimum wage)
<b>Building space</b>	Renting a 1,940 SF building at \$12.50/SF a year	Renting a 2,020 SF building at \$12.50/SF a year

Data source: ECONorthwest

For each prototype, ECONorthwest tested a low and a high-cost scenario. For the low staffing cost estimate, ECONorthwest assumed that total staffing could be reduced by half an FTE to account for the potential that the center may not need to be fully staffed during the shoulder hours in the morning and evening when children are being dropped off and picked up. An additional 5 percent is added to the payroll to account for the costs of temps, training, or other payroll-related costs. In the high-cost scenario, ECONorthwest assumed that the center would remain fully staffed at all hours of operation and added an additional 10 percent to the payroll to account for other payroll-related costs.

Exhibit 7 shows the total annual payroll expenses that the center would accrue in an average year at maximum capacity.

EXHIBIT 7. ESTIMATED ANNUAL PAYROLL COSTS, PROTOTYPES A AND B, LOW AND HIGH COSTS



Data source: ECONorthwest; Oregon Employment Department

In each case, payroll expenses account for the bulk of the potential center’s budget, ranging from 62 to 65 percent of total annual expenses for Prototype A and 68 to 71 percent of total annual expenses for Prototype B.

Personnel expenses are, by far, the largest share of any childcare center’s operating costs. These costs are driven largely by the staffing to child ratios required by the state, which requires one staff member for every four infants (aged six weeks to 23 months), one staff member for every five toddlers (aged 24 months through 35 months), and one staff member for every ten preschool-aged children (3- to 5-year-olds) (OAR 414-300-0130).

To be competitive and retain workers over the long-term, the center may need to pay higher wages than those assumed in this study. Because payroll accounts for a high share of the center’s overall costs, paying higher wages would have a sizable impact on the center’s needed contributions from outside funders.

If wages were increased so that childcare workers earned \$15 per hour, preschool teachers earned \$20 per hour, and the lead teacher/director earned \$26 per hour, payroll costs would increase by \$32,467 in the low-cost scenario for Prototype A to \$207,130 per year. In the high-cost scenario, payroll expenses would increase \$34,075 to \$232,795 per year. For Prototype B, the higher wages would increase payroll costs by \$32,567 per year to \$171,778 in the low-cost scenario, and by \$34,075 to \$195,702 in the high-cost scenario. These higher wages would require commensurate increases in revenue through higher tuition rates or, more likely, increases in contributions from outside funders.

Aside from personnel expenses, the center will incur additional non-personnel expenses, which are summarized for a typical year for Prototypes A and B in Exhibit 8.

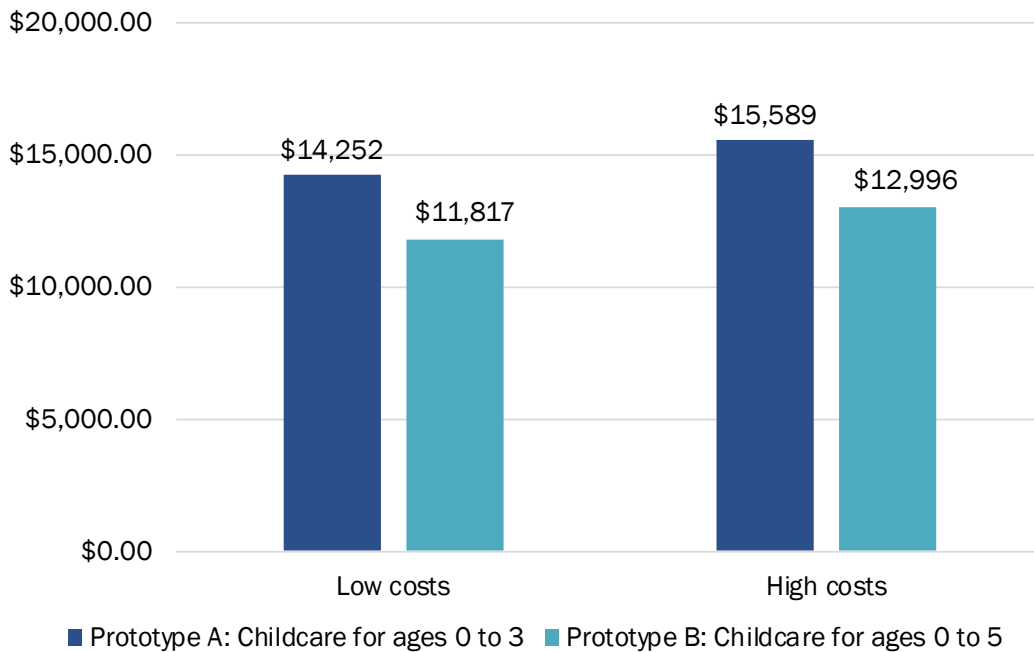
**EXHIBIT 8. ESTIMATED ANNUAL NON-PERSONNEL EXPENSES, PROTOTYPES A AND B**

	<b>Prototype A: Childcare for ages 0 to 2</b>	<b>Prototype B: Childcare for ages 0 to 5</b>
Rent	\$24,250	\$25,250
Utilities	\$6,475	\$6,621
Food	\$9,540	\$10,070
Other	\$41,615	\$43,365
<b>Total</b>	<b>\$81,880</b>	<b>\$85,306</b>

Data source: ECONorthwest; IRS Forms CT-12 and Forms 990 for childcare providers in Eastern Oregon.

Exhibit 9 displays per-child costs for Prototypes A and B. Due to the higher required staffing ratios for younger children, annual costs for Prototype A are higher both in terms of aggregate annual expenses and per child expenses.

EXHIBIT 9. ESTIMATED ANNUAL COSTS PER CHILD, PROTOTYPES A AND B



Data source: ECONorthwest

The tuition rate schedule shown in Exhibit 10 is based on the 2020 Oregon Child Care Market Price Study completed for the state<sup>14</sup> and desk research and interviews conducted with Grant County childcare providers and parents. These rates would place the proposed center at or around the 75<sup>th</sup> percentile for hourly and monthly rates for center-based care in regions of the state comparable to Grant County. Tuition is assumed to be charged monthly to hold a childcare slot regardless of attendance.

EXHIBIT 10. PROPOSED TUITION RATES

	Hourly		Monthly		Yearly	
	Part-time	Full-time	Part-time	Full-time	Part-time	Full-time
8 weeks - 23 months	\$6.00	\$5.00	\$648.00	\$900.00	\$7,776.00	\$10,800.00
24 - 35 months	\$5.50	\$4.50	\$594.00	\$810.00	\$7,128.00	\$9,720.00
3 years to 5 years	\$5.00	\$4.00	\$540.00	\$720.00	\$6,480.00	\$8,640.00

Data source: ECONorthwest

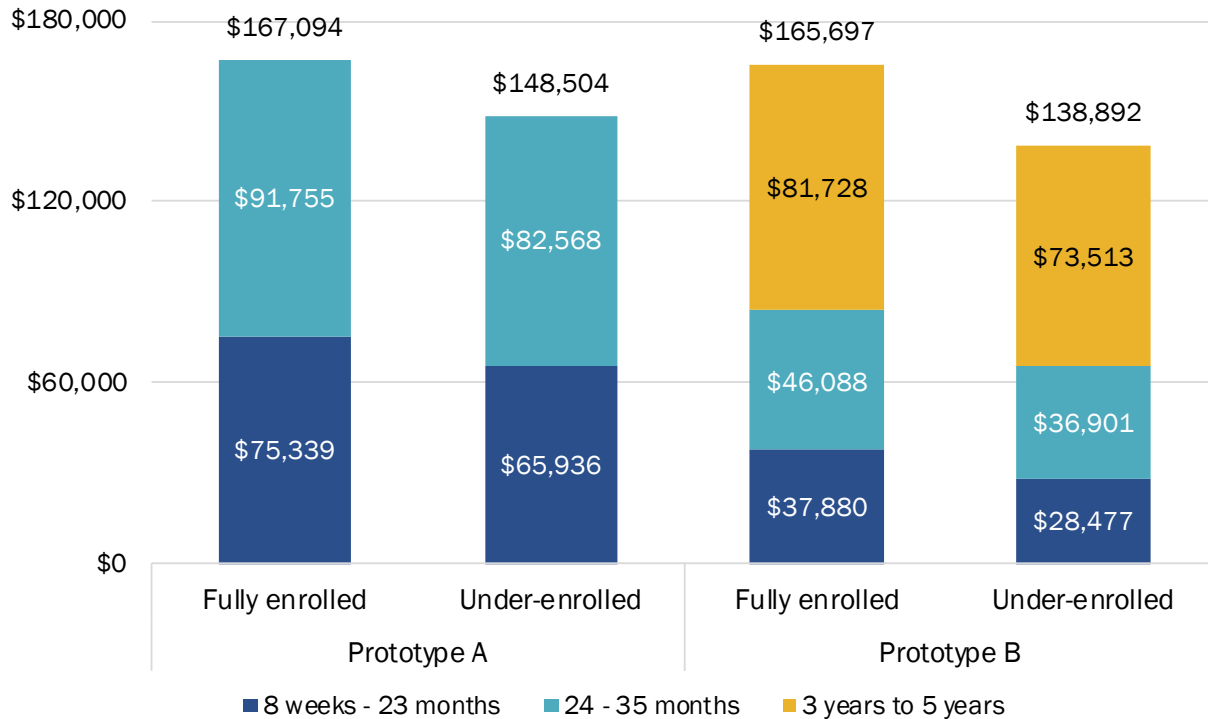
Exhibit 11 below shows the center’s anticipated revenues from childcare alone. Revenues are estimated for the center at full enrollment and at a level below full enrollment. The under-enrolled scenario models the center at an enrollment level where there is one open slot at each age group level. For example, in the under-enrolled scenario for Prototype A, the center would have unfilled slots for one infant and one toddler.

<sup>14</sup>Pratt, Megan, Houston, Laurie, and Sektnan, Michaela. 2021. “2020 Oregon Child Care Market Price Study.” Oregon State University, College of Public Health and Human Sciences.



Due to the small size of the proposed center, fluctuations in enrollment could have large effects on revenue. In Prototype A, having one less child enrolled in each age group leads to an 11 percent reduction in childcare revenues. For Prototype B, this reduction in revenue is 16 percent.

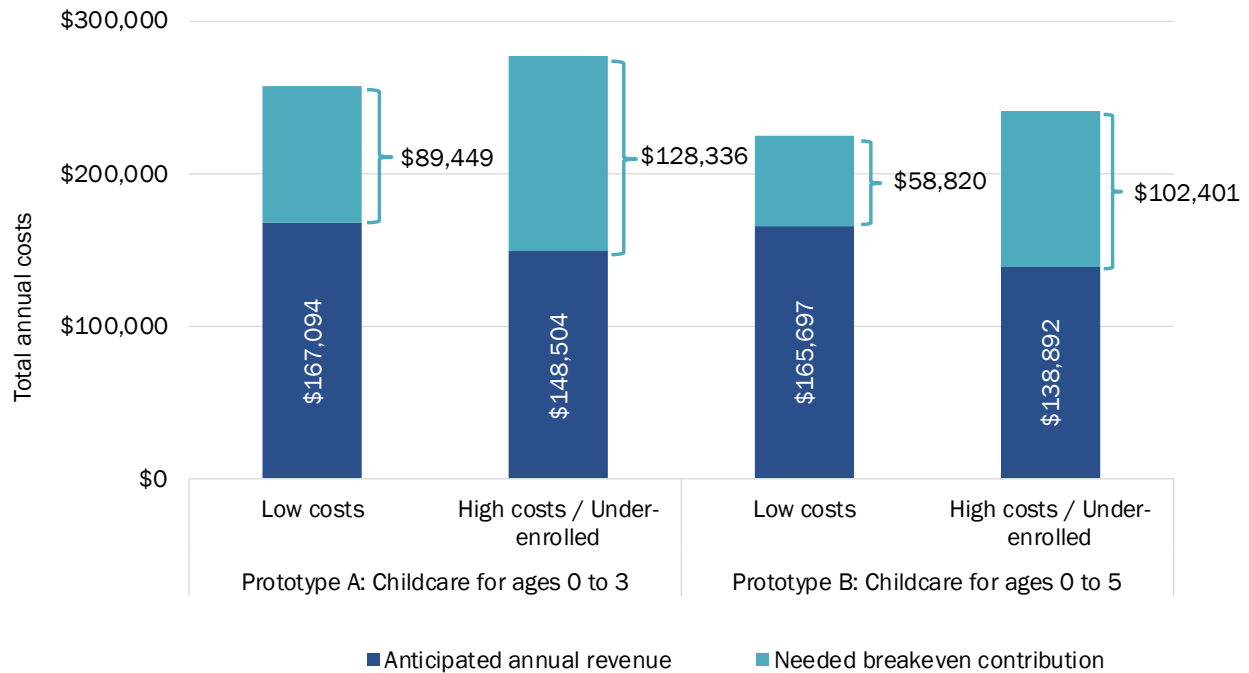
EXHIBIT 11. ESTIMATED ANNUAL REVENUE FOR PROTOTYPES A AND B, BY AGE OF CHILD



Data source: ECONorthwest. Note anticipated annual revenue includes an additional \$115 per child to account for revenue from miscellaneous fees, dividends, interest, etc. Revenues do not include contributions from outside sources or fundraisers. This analysis assumes 50 percent of enrollees aged 8 weeks to 23 months and aged 24 to 35 months would be enrolled full-time, and 75 percent of 3- to 5-year-olds would be enrolled full time.

Like many childcare centers, the proposed Grant County childcare center would not be able to cover its expenses with tuition alone. Exhibit 12 provides an estimate of the annual contributions required for the center to break even in an average year for Prototype A and Prototype B for the low-cost scenario at full enrollment and for a scenario that assumes the center is not fully enrolled and also incurs high costs.

**EXHIBIT 12. ESTIMATED REVENUE AND ANNUAL CONTRIBUTION NEEDED FOR CENTER TO BREAK EVEN, PROTOTYPES A AND B**



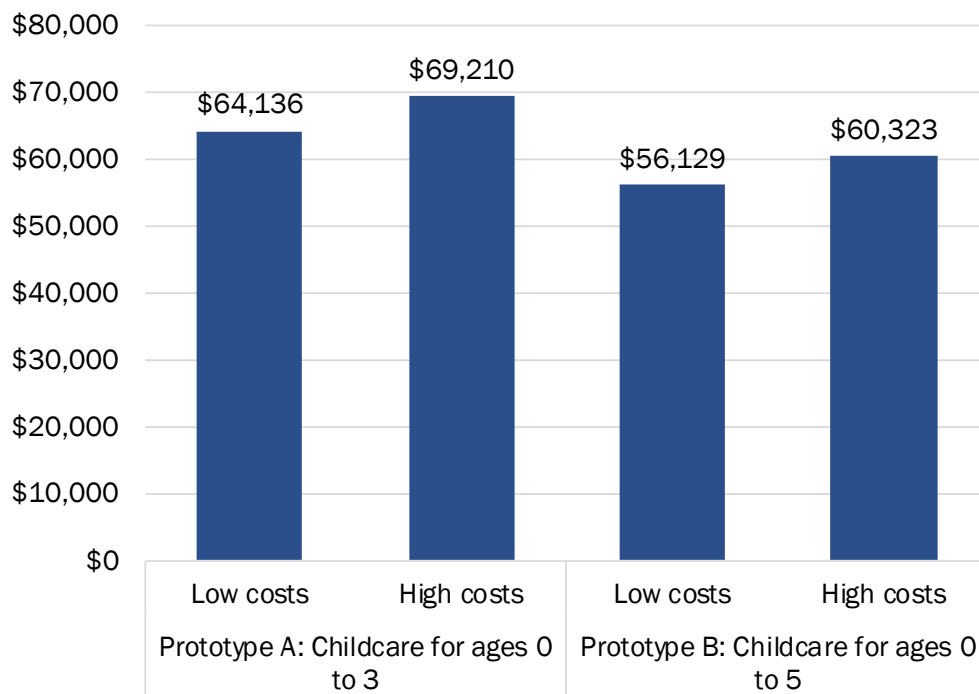
Data source: ECONorthwest

Under the scenarios presented in Exhibit 12, the proposed Grant County childcare center may need annual contributions ranging from \$89,000 to \$128,000 per year to break even for Prototype A and between \$59,000 and \$102,000 to break even for Prototype B.

Were the center a non-profit, the recommended operating reserve would be 25 percent or three months of its annual expense budget.<sup>15</sup> The center’s estimated operating reserve needed for financial stability is shown below in Exhibit 13. This operating reserve could be maintained through financial contributions, investments and dividends, and/or higher tuition rates, were the market able to support them.

<sup>15</sup> Operating Reserves Policy Toolkit Workgroup. 2010. “Operating Reserve Policy Toolkit for Nonprofit Organizations.” National Center for Charitable Statistics, Center on Nonprofits and Philanthropy at the Urban Institute, and United Way Worldwide.

### EXHIBIT 13. ESTIMATED RECOMMENDED OPERATING RESERVE



Data source: ECONorthwest

### Licensing, start-up costs, and location

The pro forma models for Prototypes A and B modeled childcare centers operating at full scale. In actuality, the proposed center would incur additional costs related to first-time licensing and start-up. The center's enrollment would ramp up over time, and the center may never reach full enrollment, which would impact the center's potential revenues as demonstrated previously.

As a starting point, ECONorthwest anticipates a cost basis of about \$15,000 for both Prototype A and Prototype B (see Appendix A: Detailed Financials). This cost basis includes purchase of physical assets (furniture, etc.) and leasehold improvements (renovations and improvements to the center's rented space). The center may be able to secure donations for these physical assets.

The center's location in John Day will also have a bearing on start-up and operating costs. If the center were in a donated or below-market space, the proposed center's total annual costs could be reduced by as much as \$25,000 in annual rent. Ideally, the center's location would be close to large employers and schools and require little to no renovation. The building space would meet the minimum square footage requirements as provided in Prototypes A and B and must be compliant with OAR 414-300-0000 through 414-300-0415.

Once a location is selected and the business model/plan for the center is finalized, the steering committee can turn its attention to recruitment of a director and center licensing and certification with the Office of Child Care (OCC). A qualified director would, at a minimum, meet the state's requirements as outlined in OAR 414-300-0080.

To become a licensed childcare center, providers are required to do the following:

- Complete Certified Child Care Center introductory packet
- Contact OCC or Licensing Specialist
- Complete a precertification visit – space approval and receive Certified Child Care Center application packet
- Conduct lead testing for on-site plumbing fixtures used to obtain water for drinking, cooking, preparing infant formula, or preparing food

In addition to passing a background check, all staff must also complete and keep up to date the required trainings below:<sup>16</sup>

- Introduction to Child Care Health & Safety
- Safe Sleep
- Food Handlers
- First Aid and CPR for infants and toddlers
- Recognizing and Reporting Child Abuse and Neglect (RRCAN)

The initial cost of a childcare certificate as outlined in OAR 414-300-0010 is \$100, plus a charge of \$2 per childcare slot. Many required trainings are available free of charge and OCC will reimburse providers for lead testing. The pro forma model includes \$500 per year for licensing and related costs along with an additional \$500 per year for advertising. However, licensing costs and advertising costs may exceed these budgeted amounts in the center’s first year of operation.

### Affordability and support for Grant County parents

The childcare industry is challenging as providers often cannot bring in enough revenue to cover their payroll and expenses while simultaneously charging tuitions that are out of reach for many families. Strict regulations and high staff-to-child ratios make providing childcare expensive.

The tuition rate schedule proposed for the proposed Grant County childcare center would not be affordable to a Grant County family earning the median family income for a family with children. The Department of Human Services advises that families not spend more than 10 percent of their gross annual income on childcare.<sup>17</sup> Under this rule, affordable annual tuition for a Grant County family earning the median income for families with children would be

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<sup>16</sup> State of Oregon. “Required Training for License Exempt Child Care Providers.” Retrieved from <https://www.oregon.gov/dhs/ASSISTANCE/CHILD-CARE/Pages/Training.aspx>

<sup>17</sup> Department of Health and Human Services. 2015. “Child Care and Development Fund (CCDF) Program; Proposed Rule.” Federal Register. Vol. 80, No. 247.

approximately \$5,300—about half the currently proposed tuition rate for infants for the Grant County childcare center.

To make care affordable and accessible to families across the income spectrum, the steering committee should consider listing the center with the Oregon Department of Human Services (ODHS). ODHS can pay a portion of qualifying families’ tuitions through its Employment Related Daycare (ERDC) program and will reimburse providers at fixed rates determined biannually. The most recent ODHS reimbursement rates for certified centers in Group C (the ODHS geographic region into which Grant County falls) are presented below in Exhibit 14.

**EXHIBIT 14. ODHS REIMBURSEMENT RATES FOR CERTIFIED CENTERS, GROUP C**

	Hourly	Part-time	Monthly
Infant	\$5.00	\$641	\$855
Toddler	\$5.00	\$589	\$785
Preschool	\$4.00	\$510	\$680
School	\$4.40	\$431	\$575
Special Needs	\$5.00	\$641	\$855

Data source: State of Oregon.

While ERDC subsidies can help make childcare more affordable for families, they can put rural providers, especially rural providers of infant care at a disadvantage. The rates in Exhibit 14 are capped at the 75<sup>th</sup> percentile of the geographic region’s market rate. Because rural areas often have lower incomes and higher rates of poverty, childcare providers are constrained in what they can charge families for tuition. However, childcare is not always less expensive to provide in rural areas, particularly for infants. Therefore, the state’s reimbursement method often leaves rural providers with a larger cost gap than they would have otherwise.<sup>18</sup>

For this reason and due to the administrative burden that comes with being certified and listed with ODHS, most Grant County providers do not accept ODHS subsidies. In the case of the proposed Grant County childcare center, assuming the center charged according to the rates in Exhibit 10, the center would suffer greater losses for ODHS children. For example, the most the center could receive monthly for an ODHS infant would be \$855 compared with the \$900 the center would charge ordinarily. Furthermore, providers are reimbursed based upon the number of hours a child is in care rather than a slot-based reimbursement, meaning that reimbursement levels can be unpredictable.

<sup>18</sup> Stoney, Louise. 2020. “Child Care in Rural Oregon: Bold Approaches to Address Systemic Inequity and Rebuild Child Care.” The Ford Family Foundation.

## Potential funding sources

Below we list potential funding sources the steering committee could consider for securing financial support for the center. In addition to these funding sources, the committee should explore local grants and funding options. Local employers, the school district, and invested parents and families may be willing to contribute financially and in-kind to support the center.

- **Baby Promise** is an Oregon pilot program that will utilize \$2.2 million in Child Care and Development Block Grant funds to develop and refine strategies to build the supply of infant and toddler care in low-income communities.<sup>19</sup>

Participating providers receive contracted slot payments, onsite support and technical assistance, access to an infant- and toddler-focused childcare network, environmental enhancement support funds, and shared services.<sup>20</sup> In order to be eligible, providers must demonstrate a commitment and ability to address the needs that Baby Promise has identified, provide care to infants and toddlers serving families whose incomes are, at the time of enrollment, at or below 200 percent of the federal poverty line, and serve families who meet the criteria established by the Early Learning Council.<sup>21</sup>

- **The Ford Family Foundation** provides funding to programs that are focused on childhood education, well-being, and nurturing through its Children, Youth, and Families grant.

Providers hoping to qualify for this grant must meet several eligibility criteria listed in the Ford Family Foundation's eligibility and readiness requirements.<sup>22</sup> Eligible providers serve populations from prenatal to age 18 in rural Oregon communities with populations of less than 35,000 people.

Funding provided by the Ford Family Foundation has supported activities such as rural behavioral health and medical initiatives, prenatal care, early childhood programs, and early childhood workforce development. The typical range for the Children Youth and Families grant is between \$10,000 and \$150,000 and can span multiple years.

- **The Biden Administration's proposed American Families Plan** includes \$200 billion for free universal pre-school for all 3- and 4-year-old children, prioritizing high-need areas. Employees participating in pre-K and Head Start programs would earn at least \$15 per hour. Additional details regarding eligibility, funding availability, and timing are yet to be determined, since the legislation has not yet passed.

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<sup>19</sup> Oregon Department of Education Early Learning Division. "Baby Promise: Infant-Toddler Quality and Supply Building Pilot." Retrieved from <https://oregonearlylearning.com/baby-promise>.

<sup>20</sup> Child Care Resource & Referral. "Baby Promise." Retrieved from <https://ccrr-mc.org/baby-promise/>

<sup>21</sup> HB 2024. 2019 Regular Session. Oregon Legislative Information. Retrieved from <https://olis.oregonlegislature.gov/liz/2019R1/Measures/Overview/HB2024>.

<sup>22</sup> The Ford Family Foundation. "Guidance and Eligibility." Retrieved from <https://www.tfff.org/how-we-fund/grants/guidance-eligibility#Eligibility>.

- **Oregon House Bill 5011** was passed during the most recent legislative session. The bill allocates money for a grant program funding co-located childcare and affordable housing projects. Many details remain to be determined.

## 4. Recommended Next Steps

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This feasibility study presented a range of options to assist the steering committee in determining the best model for additional childcare in the John Day region. Near-term recommendations for the committee are summarized below.

- **Identify a site for the center and reach consensus on programmatic offerings.** Determining a location for the center is of critical importance. The center's location will have implications on its financial viability, its potential market, and its marketing and advertising strategy. Ideally, the center's location would be close to large employers as well as schools and would require little to no renovation. Securing a donated space or space rented at a below-market rate would improve the proposed center's financial viability substantially.

The committee should also reach consensus on the center's programmatic offerings. This will involve finalizing the age ranges and number of children the center will serve, at least initially. Committee members should also decide on the center's educational and developmental offerings.

- **Conduct additional market research to determine what childcare model would best serve the community and what tuition rates are feasible given the center's location and offerings.** This feasibility study included a preliminary exploration of the childcare market in Grant County and determined that there is likely need for additional regulated slots and slots for infants and toddlers. Additional market research in the form of surveys and outreach could inform the committee's final decisions about the center's offerings while also allowing for community input.
- **Develop a detailed business plan.** Once the details of the center are finalized, the committee should develop a detailed business plan that includes a cash flow analysis and operational and staffing plan.
- **Secure external support from public and private funders.** As indicated earlier in this study, the proposed childcare center will likely require substantial financial support from public and/or private funders. The committee should explore funding options, including those proposed in this report. Local employers may be willing to contribute financially or in-kind (such as through the donation of a space or site for the center).

## 5. Appendix A: Detailed Financials

EXHIBIT 15. PRO FORMA, PROTOTYPE A

	Low staffing costs	High staffing costs	High staffing costs / Under-enrolled
Capacity	18	18	16
Number of individuals employees during the year	5.5	6	6
Number of volunteers	-	-	0
<b>Income Statement</b>			
Revenues:			
Contributions, grants, fundraiser	\$ -	\$ -	\$ -
Childcare revenues	\$ 165,024	\$ 165,024	\$ 146,664
Other	\$ 2,070	\$ 2,070	\$ 1,840
Total revenue	\$ 167,094	\$ 167,094	\$ 148,504
Expenses:			
Payroll:			
Salaries, wages	\$ 152,250	\$ 173,250	\$ 173,250
Benefits	\$ 4,600	\$ 5,200	\$ 5,200
Payroll taxes	\$ 17,813	\$ 20,270	\$ 20,270
Payroll costs	\$ 174,663	\$ 198,720	\$ 198,720
Other:			
Accounting, legal, other fees for services	\$ 3,000	\$ 3,000	\$ 3,000
Advertising	\$ 500	\$ 500	\$ 500
Office Exp.	\$ 2,700	\$ 2,700	\$ 2,400
Occupancy	\$ 24,250	\$ 24,250	\$ 24,250
Travel	\$ 500	\$ 500	\$ 500
Conferences, meetings	\$ 1,000	\$ 1,000	\$ 1,000
Interest	\$ 100	\$ 100	\$ 100
Depreciation	\$ 2,400	\$ 2,400	\$ 2,400
Insurance	\$ 5,580	\$ 5,580	\$ 4,960
Supplies, activities	\$ 4,500	\$ 4,500	\$ 4,000
Food	\$ 9,540	\$ 9,540	\$ 8,480
Janitorial, repairs & equip. leases	\$ 9,215	\$ 9,215	\$ 9,215
Utilities	\$ 6,475	\$ 6,475	\$ 6,475
Licenses, dues, subscriptions	\$ 500	\$ 500	\$ 500
Bank charges	\$ 100	\$ 100	\$ 100
Other expenses	\$ 11,520	\$ 11,520	\$ 10,240
Total expenses	\$ 256,543	\$ 280,600	\$ 276,840
Revenue less expenses	\$ (89,449)	\$ (113,506)	\$ (128,336)
Cost per child (capacity)	\$ 14,252	\$ 15,589	\$ 17,302
<b>Balance Sheet PP&amp;E:</b>			
PP&E:			
Cost basis:			
Land	\$ -	\$ -	\$ -
Buildings	\$ -	\$ -	\$ -
Leasehold improvements	\$ 4,850	\$ 4,850	\$ 4,850
Equipment	\$ 4,000	\$ 4,000	\$ 4,000
Other	\$ 6,000	\$ 6,000	\$ 6,000
Total cost basis	\$ 14,850	\$ 14,850	\$ 14,850
Accumulated depreciation			
Depreciation	\$ 2,400	\$ 2,400	\$ 2,400
Accumulated depreciation	\$ 2,400	\$ 2,400	\$ 2,400
Book Value	\$ 12,450	\$ 12,450	\$ 12,450



EXHIBIT 16. PRO FORMA, PROTOTYPE B

	Low staffing costs	High staffing costs	High staffing costs / Under-enrolled
Capacity	19	19	16
Number of individuals employees during the year	4.5	5	5
Number of volunteers	-	-	0
<b>Income Statement</b>			
Revenues:			
Contributions, grants, fundraiser	\$ -	\$ -	\$ -
Childcare revenues	\$ 163,512	\$ 163,512	\$ 137,052
Other	\$ 2,185	\$ 2,185	\$ 1,840
<b>Total revenue</b>	<b>\$ 165,697</b>	<b>\$ 165,697</b>	<b>\$ 138,892</b>
Expenses:			
Payroll:			
Salaries, wages	\$ 121,406	\$ 140,938	\$ 140,938
Benefits	\$ 3,600	\$ 4,200	\$ 4,200
Payroll taxes	\$ 14,205	\$ 16,490	\$ 16,490
<b>Payroll costs</b>	<b>\$ 139,211</b>	<b>\$ 161,627</b>	<b>\$ 161,627</b>
Other:			
Accounting, legal, other fees for services	\$ 3,000	\$ 3,000	\$ 3,000
Advertising	\$ 500	\$ 500	\$ 500
Office Exp.	\$ 2,850	\$ 2,850	\$ 2,400
Occupancy	\$ 25,250	\$ 25,250	\$ 25,250
Travel	\$ 500	\$ 500	\$ 500
Conferences, meetings	\$ 1,000	\$ 1,000	\$ 1,000
Interest	\$ 100	\$ 100	\$ 100
Depreciation	\$ 2,420	\$ 2,420	\$ 2,420
Insurance	\$ 5,890	\$ 5,890	\$ 4,960
Supplies, activities	\$ 4,750	\$ 4,750	\$ 4,000
Food	\$ 10,070	\$ 10,070	\$ 8,480
Janitorial, repairs & equip. leases	\$ 9,595	\$ 9,595	\$ 9,595
Utilities	\$ 6,621	\$ 6,621	\$ 6,621
Licenses, dues, subscriptions	\$ 500	\$ 500	\$ 500
Bank charges	\$ 100	\$ 100	\$ 100
Other expenses	\$ 12,160	\$ 12,160	\$ 10,240
<b>Total expenses</b>	<b>\$ 224,517</b>	<b>\$ 246,933</b>	<b>\$ 241,293</b>
Revenue less expenses	\$ (58,820)	\$ (81,236)	\$ (102,401)
Cost per child (capacity)	\$ 11,817	\$ 12,996	\$ 15,081
<b>Balance Sheet PP&amp;E:</b>			
PP&E:			
Cost basis:			
Land	\$ -	\$ -	\$ -
Buildings	\$ -	\$ -	\$ -
Leasehold improvements	\$ 5,050	\$ 5,050	\$ 5,050
Equipment	\$ 4,000	\$ 4,000	\$ 4,000
Other	\$ 6,000	\$ 6,000	\$ 6,000
<b>Total cost basis</b>	<b>\$ 15,050</b>	<b>\$ 15,050</b>	<b>\$ 15,050</b>
Accumulated depreciation			
Depreciation	\$ 2,420	\$ 2,420	\$ 2,420
<b>Accumulated depreciation</b>	<b>\$ 2,420</b>	<b>\$ 2,420</b>	<b>\$ 2,420</b>
<b>Book Value</b>	<b>\$ 12,630</b>	<b>\$ 12,630</b>	<b>\$ 12,630</b>