

Watertown

Child Care Landscape Analysis Report



May 2024

Report prepared by:

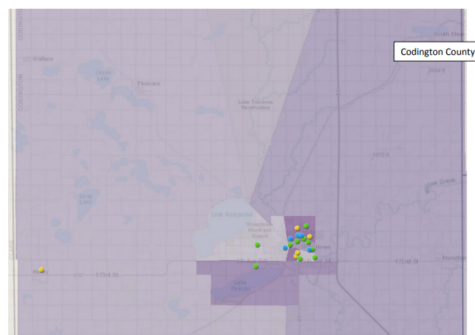


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Codington County Working Parents

Throughout Codington County, parents are working. However, many face great challenges finding and affording child care. Finding care is difficult because the supply of licensed or registered child care falls far short of meeting the potential need for care (i.e., the number of children in families with all parents working greatly exceeds the number of available slots for child care). Even when care is available, parents struggle with the price.

Because supply and price are both challenges for families, which limit the ability for parents to work, this landscape analysis reviews both challenges. In addition, the report will review current employer supports for child care.

Working Parents in Codington County

Mothers in Codington County are working. All categories of mothers (mothers with children under age 6, with younger children and school-age children, and school-age only children) are working at a higher rate than the state average.

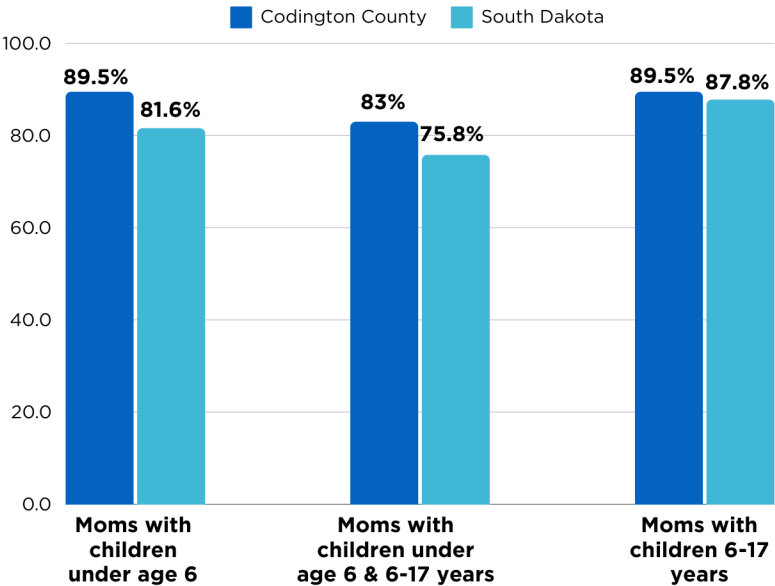


Children in Working Families in Codington County

In Codington County, there are about 5,275 children age 13 and younger in families where all parents are working (e.g., both parents in two-parent households are working and either a single mother or single father with children are working).

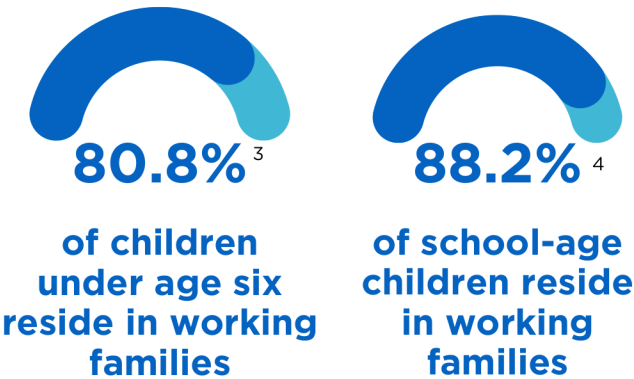
This includes 1,533 children under age six,¹ and 3,300 school-age children (ages 6-13).²

Working Mothers in Codington County Compared to SD Statewide



Source: U.S. Census Bureau, [Table S2301](#) Employment Status, 2022 American Community Survey, 5-Year Estimates

In Codington County,



Child Care Supply in Codington County

Parents have limited choices in accessing market-based regulated care in Codington County.

In total, there are 20 regulated programs.⁵

County-wide, there are 5 licensed child care centers, 5 licensed before & after centers, and 10 registered home-based providers who care for 12 or fewer children.⁶

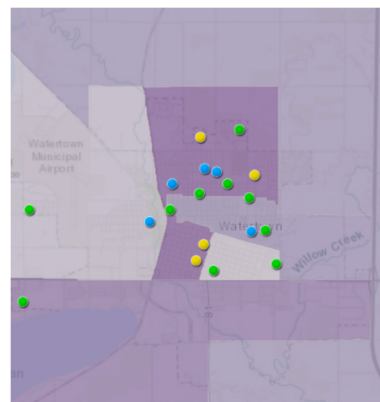
Kids Count South Dakota estimates that the capacity across regulated settings in Codington County for children under age 6 could enable 961 children to access care.⁷

The regulated capacity for school-age children in school-age programs is 495.⁸ The gap between the supply and potential need relegates Codington County to a child care desert for working parents.

The current supply of child care for children under age 6 in Codington County meets on paper about 62.7% of the need by working parents.⁹

The supply of before and after school care for school-age children meets about 13.2% of the potential need.

Both capacity estimates may be misleading. The challenge in reviewing potential need against the supply is that the South Dakota Department of Social Services does not retain regulated capacity data by the age of the child (e.g., School-age care only serves school-age children. However, licensed centers and registered homes may serve children of varying ages – school-age and younger children).



Watertown community child care landscape map

Green dots: Child care homes

Blue dots: Licensed child care centers

Yellow dots: Licensed before & after centers

It would be helpful to understand regulated capacity by specific child ages (e.g., to better understand the regulated capacity for infants and toddlers or preschool-age children compared to school-age children in regulated care that may serve children across age groups. In this way, more precise estimates could be made as to the capacity for care for each age group.

For example, the 495 spots in licensed before & after centers are solely for school-age children. However, the 961 spots in licensed centers and registered family child care homes could serve children of all ages, not just younger children who are not yet enrolled in public schools.

This means the capacity for school-age children is likely understated and the capacity for younger children is likely overstated. It is not possible to know since the capacity data is not available by child age.

Nevertheless, the gap between the regulated supply of care and the potential demand for care is large.

Child Care Supply in Codington County

The U.S. Census Bureau Economic Survey includes estimates of sole proprietors by industry across states subdivided by county. In Codington County, there are 99 home-based child care businesses that reported annual revenue of \$3.5 million in 2021.¹⁰ It is not possible to know how many children are in their care.

Legally, state law does not require a license until 13 children are in care. Home-based providers caring for fewer children can become registered (which is required if they want to serve children whose care is paid for through the child care subsidy program), but otherwise is voluntary.

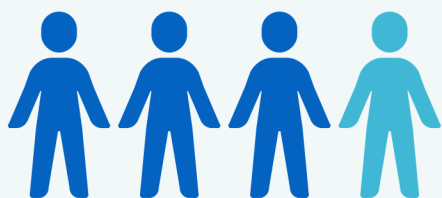


Codington County Parent Survey Findings

In 2022, a parent child care survey was conducted as part of the Codington County Social Services Strategic Planning process.¹¹ The survey was conducted between October 13, 2022 and December 4, 2022 and garnered responses from 345 parents.

Nearly half of the survey respondents (49%) were currently utilizing child care and nearly 10% more indicated a future need for care or they were looking for care at the time of the survey.

More than half of parents (56%) contacted three or more providers before obtaining child care for their infant. Nearly 20% of parents (18.04%) contacted six or more providers before obtaining child care.¹²



Nearly three-quarters of parents (73.6%) believe there is NOT a sufficient number of child care options in Codington County.

Source: 2022 Codington County Child Care Survey, January 2023

Top 4 Child Care Settings Reported by Codington Parents:

- **28.3%** of parents use unregistered home-based child care providers
- **21.8%** of parents use school or community out of school time programs
- **20.3%** of parents use licensed child care centers
- **13.4%** of parents use registered home-based child care providers

Source: 2022 Codington County Child Care Survey, January 2023

Whats is most important to parents?

Parents were asked to rank what is most important to them in meeting their child care needs.

The top four rankings:

1. Finding temporary care

2. Access to more registered child care providers

3. Access to more licensed child care providers

4. Extended hours of care

Note: Cost of care was ranked at #6.

Source: 2022 Codington County Child Care Survey, January 2023

Codington Parent Survey Findings

Child Care Affordability

In Codington County, parents spend a significant portion of their income for child care.

29% of parents are paying between \$101 to \$120 per week per child for child care. This means that parents could be paying between \$5,252 to \$6,240 annually.

22% of parents are paying between \$121 per week per child to \$150 or more per week per child for child care. This means that parents could be paying between \$6,292 to \$7,800 or more annually.

According to Kids Count South Dakota, families pay about 9% of income on child care.¹³

The state child care assistance program offers a subsidy for applicants with income at or below 209% of the federal poverty level.¹⁴ Parents must work at least 80 hours per month and have a child age 12 or younger (or a teenager incapable of self-care).¹⁵

A report released by Kids Count South Dakota in January 2024 found that statewide only 7% of eligible young children and 5% of eligible school-age children receive child care subsidy.¹⁶

In Codington County, only 4% of eligible children receive child care assistance help (65 children).¹⁷

It could be that the availability of child care assistance needs to have more visibility so that families are aware of it. It could also be that the limited supply of regulated care (a requirement generally for the use of child care subsidy),¹⁸ impacts the ability of families to use child care subsidy within the community (even though they may be eligible for the program).

Families can also use their subsidy with child care providers who are in the process of becoming registered or licensed, and with relatives or in-home providers who meet certain requirements.¹⁹

Quality Child Care

Parents were asked how the quality of care with their current provider could be improved.

- **19.8%** said there could be more educational/learning opportunities for children.
- **16.3%** said that there could be more staff to better meet the children's needs.

Nontraditional Hour Care

The 2022 Codington County child care survey asked parents about the hours during which they need child care. A significant portion of parents responding to the survey indicated a need for care during nontraditional hours - early mornings, evenings, and weekends.

Codington Survey Findings Nontraditional Hour Care Needs

Weekdays, 6 am - 6 pm	32.55%
Weekdays, 5 am - 8 am	9.75%
Weekdays, 6 pm - midnight	4.09%
Weekdays, overnight care	2.14%
Drop-in care	9.75%
Afterschool, 3 pm - 6 pm	15.79%
Weekends	4.68%

Source: 2022 Codington County Child Care Survey, January 2023

Watertown Employer Survey Findings

Klein Visioneering Group surveyed employers in Watertown to gather a baseline related to employee benefits overall and gauge interest in various child care strategies.

Of the 19 employers that responded to the February 26 – March 11, 2024 employer survey, about onequarter (26.2%) said they had 20 or fewer employees, 15.8% said they had 51-100 employees and 31.6% said they had 100 or more employees.

Nearly 90% (89.5%) have been in business for more than 20 years.

Employers were asked about benefits they provide. Health insurance and retirement benefits were the most frequently offered (both by 94.7% of employers) with paid family leave the next most frequently offered benefit (73.6%).

Employer responses to a range of benefits are reflected in the table on the right.

Employers were asked if they agreed or disagreed that the availability of affordable, quality child care is important to the productivity of their workforce. 89.5% of employers strongly agreed. Another 5.2% somewhat agreed.

Employer responses to a range of benefits are reflected below	
Watertown Employer Benefits	% Employers Offering Benefit
Health Insurance	94.7%
Health Savings or Spending Account	63.2%
Retirement Benefits	94.7%
Education Benefits	52.6%
Paid Family Leave	73.7%
Flexible Scheduling	57.9%
Telecommuting (Part-time or full-time)	10.5%
Onsite Child Care	0.0%
Subsidized Child Care or Child Care Financial Assistance	0.0%
Company-affiliated or near-site center	0.0%
Dependent Care Flexible Spending Account	52.6%
None of the above	0.0%

Source: Watertown Employer Child Care Survey, February 26 – March 11, 2024.

More than three-fifths (63.2%) of responding employers reported that they periodically survey their employees for feedback related to benefits.

In Watertown, employers reported that most employees are primarily working onsite (94.7%). Most employees have 2 weeks or more advance notice of their work schedule. However 5.2% of employers said that some of their employees have less than 2 weeks’ notice of their schedule.

Watertown Employer Survey Findings

More than one-third (36.8%) of responding employers said that some of their employees had quit or reduced their hours in the past year due to child care challenges

Child Care Challenges Impacting Codington Employers

- **21.4%** of employers said between **1 and 5%** of their employees had quit or reduced hours due to child care challenges.
- **21.4%** of employers said between **6 and 10%** of their employees had quit or reduced hours due to child care challenges.
- **7.1%** of employers said between **11 and 20%** of their employees had quit or reduced hours due to child care challenges.
- About **50%** of employers in Watertown said they weren't sure why employees left the company.

Employer-provided child care tax credit

Over two-thirds of employers (68.4%) were unaware of the federal tax credit (the Employer-provided child care tax credit, 26 U.S. Code § 45F), that offers an incentive for employers to help their employees access child care. For the share that were aware of the credit, none have used it.

Employers were asked about their likelihood to offer new or enhanced child care benefits if a 25% tax credit were available. Nearly half (47.3%) said they would be very likely or somewhat likely to do so.

Employers were asked about their likelihood to offer new or enhanced child care benefits if a 50% tax credit were available. More than half (52.6%) said they would be very likely or somewhat likely to do so.

Employers were asked if the state or a locality were to match their monetary support for an employee's child care costs (e.g., \$200 per month per employee to help pay for child care matched by the state or locality), would they be interested in such a strategy? More than half (52.6%) of employers said they would be very likely or somewhat likely to do so.

Watertown Employer Benefits that Employers Might Consider if Employees Expressed Interest

Flexible scheduling	72.2%
Telecommuting (part-time or full-time)	22.2%
Subsidized child care center (onsite)	33.3%
Child care financial assistance (e.g. a monthly contribution toward the cost of child care to employees)	50.0%
Company-affiliated or near-site center (contracting for slots on behalf of employees with local child care programs)	50.0%
Dependent care flexible spending account	33.3%
Not Sure	16.7%
None of the Above	0.0%

Source: Watertown Employer Child Care Survey, February 26 – March 11, 2024.

Modeling the Cost of Child Care in Codington County through Feasibility Analysis



Overview

As a supplement to the parent and community needs assessment discussed above, Klein Visioneering Group also partnered with the [Low Income Investment Fund \(LIIF\)](#) to further explore business operations and the feasibility of child care operations in Watertown.

Specifically, this analysis uses a cost model developed for LIIF's 2023 report [Too Expensive, and Not Expensive Enough](#) that identifies strategies for strengthening the child care sector through sustainable investments in operations and facilities.

Center expenses were calculated using figures published in the South Dakota's Department of Social Services' Child Care Cost of Care Analysis report. On average, rent or mortgage expenses account for 7% of overall center expenses or 24% of non-personnel costs. Our analysis presented below explores two scenarios where large overhead costs like rent and facilities maintenance are excluded to demonstrate the cost savings a subsidized facility arrangement could have for parents. Following an initial discussion of the two scenarios for the development of a new child care center in Watertown, we present outputs of a financial model that assesses the viability of the program's capacity to increase staff compensation or qualify for debt financing across the most feasible new center development scenario.

Assumptions for the Scenarios

In each scenario, the proposed child care center is intended to serve 30 infants (ages 0-1), 60 toddlers (ages 1-3) and 90 preschoolers (ages 3- 5).

The staffing arrangements meet minimum licensing requirements: 6 infant teachers (3 lead, 3 assistants), 12 toddler teachers (6 lead, 6 assistants), and 9 preschool teachers (5 lead, 4 assistants). Given challenges locally with recruiting and retaining qualified staff, pay and benefit assumptions are elevated slightly beyond the typical average hourly rates from the Cost of Care report. Lead teachers work 40 hours a week, 50 weeks a year at a rate of \$20/hour, and assistant teachers earn \$15/hour at the same full-time schedule. All teachers also receive small benefits allowances at 6.8% of their total compensation for possible health insurance or retirement subsidies. Both scenarios include two administrative staff, a Director earning an annual salary of \$45,000/year and a Site Coordinator earning \$32,000/year. Both positions also qualify for small benefits allowances at 6.8% of total compensation.

According to the Cost of Care report, on average, 28% of total overall expenses for child care centers in the state are for non-personnel line items. In both scenarios, rent or mortgage payments are assumed to be fully subsidized by a community partner and are excluded. The remaining non-personnel expenses, like facility maintenance, teaching materials, and administrative costs were calculated based on the average percentages of total expenses across child care centers in South Dakota. While there is a possibility for further cost-savings through sharing some facilities costs like janitorial services or internet and telephone payments with a property host or other partner, for the purposes of our analysis, these expenses were included in full.

 Infants (ages 0- 1)

 Toddlers (ages 1-3)

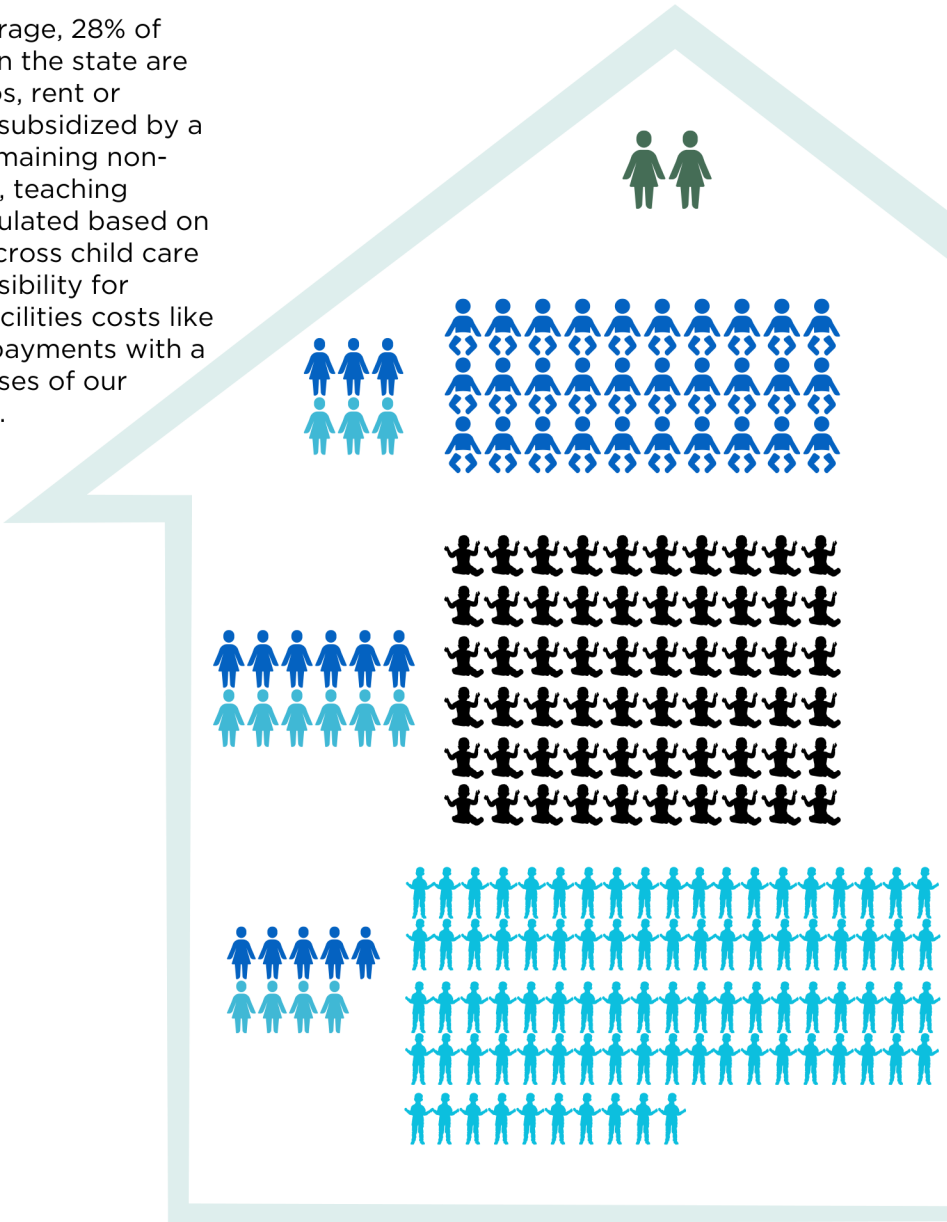
 Preschoolers (ages 3-5)

 Teacher Leads

 Teacher Assistants

 Part-time Floating Staff

 Administrative Staff



Assumptions for the Scenarios

Scenario 1

Revenues collected come primarily from tuition payments from parents and/or state subsidy dollars. Scenario 1 relies on an affordable hourly tuition rate set at the recommended 7% of median family income for Codington County, which in our model comes from the midpoint of a range of \$50,000 to \$74,999. In other words, this scenario keeps tuition affordable to typical parents in the county, equating to about \$2.94/hour (about \$118/week). While the cost of infant, toddler and preschool care generally varies in price due to teacher/child ratios,

Scenario 1 uses the same \$118/week tuition rate for each age group to model program operations if the average earning family only contributed 7% of their annual earnings to child care. Costs of care may differ for programs by age group, but what is affordable to parents does not.



Scenario 2

This scenario assumes that the program charges market rate tuition for all participating families. Market rates used in this analysis were collected by the South Dakota Department of Social Services (DSS) Division of Economic Assistance Child Care Services for the 2022 South Dakota Child Care Market Rate Report.

For the purposes of this analysis, market rates at the 75th percentile were used in these models, meaning 75% of child care seats included in the market rate study charge at or below the calculated rate. Rates for children under the age of three are grouped together at \$4.19/hour (about \$168/week), while children ages 3-5 are charged at or below \$3.74/hour (about \$150/week).

Table 1: Projected Net Operating Income by Scenario

Scenario	Total Revenues	Total Expenses			1-Year Net Operating Income (Deficit)
		Total	Personnel	Non- Personnel	
1. Affordable rate tuition	\$1,104,809	\$1,601,783	77%	23%	(\$464,974)
2. Market rate tuition	\$1,489,989	\$1,601,783	77%	23%	(\$111,794)

The relief of large facilities expenses plus revenue generated by market rate tuition rates positions Scenario 2 as the favorable model.

The costs of leasing or paying a mortgage on a facility, even if not the first child care center for an operator, is costly. While this scenario only meets minimum staffing licensing requirements, the analysis below demonstrates how Scenario 2 can be modified to include additional elements of a high-quality center while keeping tuition costs relatively affordable to families.

Operating Costs & Tuition Revenue: Holding nontuition revenue sources (state-sponsored food programs and parent fees) constant, total revenues were calculated for each scenario based on either an affordable tuition rate or market rate.

For scenario 1 using the affordable rate of \$118/week, total annual revenues were projected to reach \$1,104,809. Scenario 2 relied on a rate of \$168/week for infants and toddlers and \$150/week for preschoolers, achieving a total annual revenue of \$1,489,989. In both scenarios where rent or mortgage costs are excluded, non-personnel costs account for 23% of total expenses. However, market rate tuition revenue reduced overall annual budget deficits considerably (see Table 1).

Scenario 2 produces the smallest gap in operating income while still allocating 77% of total revenues to the salaries and employee benefits of staff. Teacher to child ratio requirements impact the number of staff needed for each age group, affecting the operations costs for infants, toddlers, and preschoolers. Centers usually offset the need for more infant and toddler teachers by charging higher tuition rates for these age groups.

Under Scenario 2, projected revenues come closest to the true cost of care, marginally losing money on infants and toddlers while earning some profit on the enrollment of preschool children (see Table 2). The easiest way for centers to increase revenue is to raise the cost of tuition. Table 3 shows the weekly tuition cost to families by age group and a new weekly tuition price that would meet projected total expenses for each scenario. In Scenario 2, this equates to \$45 per week more for infants and toddlers and a reduction in price by nearly 15% for preschoolers. These outputs are hypothetical to show how tuition rates must change to cover base costs, but in reality, the program could offset required tuition hikes for younger children with less substantial reductions in preschool tuition.

Findings

Table 2: Projected Costs Per Child by Age Group and Scenario

Scenario	Annual Cost Per Child					
	Infants		Toddlers		Preschoolers	
	Cost	Diff from Revenues ¹	Cost	Diff from Revenues ¹	Cost	Diff from Revenues ¹
1. Affordable rate	\$10,347	-41%	\$10,347	-41%	\$6,606	-1%
2. Market rate	\$10,347	-16%	\$10,347	-16%	\$6,200	+25%

1) Calculations only reflect the difference between the cost of care and revenues collected from tuition sources.

The easiest way for centers to increase revenue is to raise the cost of tuition. Table 3 shows the weekly tuition cost to families by age group and a new weekly tuition price that would meet projected total expenses for each scenario. In Scenario 2, this equates to \$45 per week more for infants and toddlers and a reduction in price by nearly 15% for preschoolers. These outputs are hypothetical to show how tuition rates must change to cover base costs, but in reality, the program could offset required tuition hikes for younger children with less substantial reductions in preschool tuition.

Table 3: Weekly Tuition Required to Break Even at the Base Cost of Care

Scenario	Weekly Cost Per Child					
	Infants and Toddlers			Preschoolers		
	Current Tuition	New Tuition	% Change	Current Tuition	New Tuition	% Change
1. Affordable rate	\$118	\$213	+81%	\$118	\$129	+9%
2. Market rate	\$168	\$213	+27%	\$150	\$129	-14%

Cost Implications of Quality Enhancements and Potential Next Steps

Both scenarios discussed on page 14 were designed to keep operating expenses low to illustrate cost-saving models that meet minimum licensing requirements. Regardless of considerations around debt financing or additional expenses to increase quality, Scenario 2 is the most financially feasible model to meet those licensing standards. But for future scenario planning, Table 4 displays how the center in Scenario 2 might need to increase its tuition rates to sufficiently increase revenues in order to qualify for a loan. Child care programs tend to skate by on thin margins, making debt financing of any scale a persistent challenge. This can drain the quality of programs by causing them to operate from substandard physical spaces or thwart expansion projects altogether when those interested in adding capacity cannot find sufficient capital to complete necessary construction projects.

Table 4 includes model outputs of a debt capacity assessment for our recommended Scenario 2. In order for a large new child care center to open in Codington County, significant revenues will need to be raised to finance facility construction. In a case where facilities costs are subsidized by a community partner such as a school district, there may be some flexibility to support a child care center co-located with one of its schools. But the future operator of the program, local shareholders, and others must find sufficient resources to pay for construction to retrofit the building to accommodate child care. This could occur through a one-time capital fundraising campaign, or through ongoing commitments to the program to help the program pay off a loan.

For the sample program in Scenario 2 to afford a \$500,000 or \$1 million loan to support construction, it would need to substantially raise tuition for infants and toddlers and marginally do so for preschoolers. The debt capacity assessment rests on relatively affordable construction loan terms at a 7.5% interest rate over a five-year repayment period, which may only be available from a mission-aligned lender like a community development financial institution (CDFI) or a local credit union or bank. To qualify for a \$1 million loan, infant and toddler tuition would need to increase by 45% (\$67 per week) and preschool tuition by 4% (\$24 per week).

Table 4: Weekly Tuition Increases Necessary to Afford Debt Financing for Scenario 2, Market Rate Tuition

Scenario	Current Tuition	To afford \$500k loan ¹		To afford \$1m loan ¹	
		New Tuition	% Change	New Tuition	% Change
Infants and Toddlers	\$168	\$228	+36%	\$235	+45%
Preschoolers	\$150	\$142	-5%	\$156	+4%

1) Loan terms are set at a 7.5% interest rate over a five-year repayment period. The model also assumes small lender origination fees and some necessary equity put down up front.

Cost Implications of Quality Enhancements and Potential Next Steps

Although Table 4 represents debt capacity if the program wants to build sufficient space to open at base licensing standards, it is also important to consider how quality enhancements related to adult-to-child ratios and teacher pay might further elevate necessary costs.

The base assumptions of Scenarios 1 and 2 set teacher salaries at above the market rate of \$20/hour or about \$40,000/year (lead teachers) and \$15/hour or \$30,000/year (assistant teachers). These pay rates, while above the average rate of these roles in South Dakota, leave early childhood educators earning below the state's median income and could still exacerbate significant staffing and workforce challenges that child care providers across the state and nation face.

Additionally, smaller teacher to child ratios could promote safer supervision and more opportunities for individualized interactions. With these indicators of quality in mind, the model expands on Scenario 2 by reducing ratios (down to 1:4 for infants, maintained at 1:5 for toddlers and down to 1:8 for preschoolers), and adds one additional floater to assist all classrooms. Lead teacher salaries were increased to \$46,000 and assistant and floater teacher salaries to \$36,000.

To meet these new personnel expenses, tuition prices would need to be raised considerably (see Table 5). For a family with a one-year-old looking for full time child care, the higher-quality version of Scenario 2 brings their total weekly tuition rate to \$273/week or \$14,196/year. For a family making \$70,000/year, this is about 20% of their annual income.

Table 5: Building in Quality Enhancements for Scenario 2, Weekly Market Rate Tuition

Infants			Toddlers			Preschoolers		
Current Tuition	New Tuition	% Change	Current Tuition	New Tuition	% Change	Current Tuition	New Tuition	% Change
\$168	\$273	+63%	\$168	\$247	+47%	\$150	\$189	+26%

What families can afford to pay does not cover the true cost of care. To generate enough revenue to meet the expenses of operating a child care center, tuition can be supplemented by other funding sources such as public/private partnerships or stateadministered programs. Using cost of care estimates in the base licensing and quality enhancement scenarios for Scenario 2, Figures 1 and 2 represent how the cities in Codington County might facilitate a tri-share model for splitting costs across private tuition payments from parents, public resources (e.g., state subsidy dollars or other public funds), and a pool of financial support from employers or other community partners.

Cost Implications of Quality Enhancements and Potential Next Steps

Figure 1 explores how Scenario 2 could be funded through a tri-share model, in which tuition revenue breaks even with center expenses but is split evenly by an employer pool and other public funds. For example, to cover base costs of serving the 30 infants at the new center, the program needs to collect about \$10,347 per child per year (equating to about \$168/week in tuition costs). In a tri-share model with equal costs covered by the three stakeholder groups, parent fees would decrease to about \$56/week, a significant cost savings to families that maintains quality and sustainability for the child care program.

A tri-share model can also supplement the higher costs of operating a center with more staff and higher salaries for teachers, among other indicators of high-quality. Figure 2 displays the tuition split by age group for the modified version of Scenario 2. In this model, the annual cost of serving each infant is \$15,324, or \$273/week in tuition costs. Divided evenly between the three funding sources, parents would still see their payments decrease when compared to existing market rates, only being responsible for \$91/week per family. As a reminder, the tri-share models still exclude large facilities costs that help keep tuition rates low for parents.

Figure 1. Exploring a Tri-Share Model for Scenario 2, Market Rate Tuition at Base Licensing

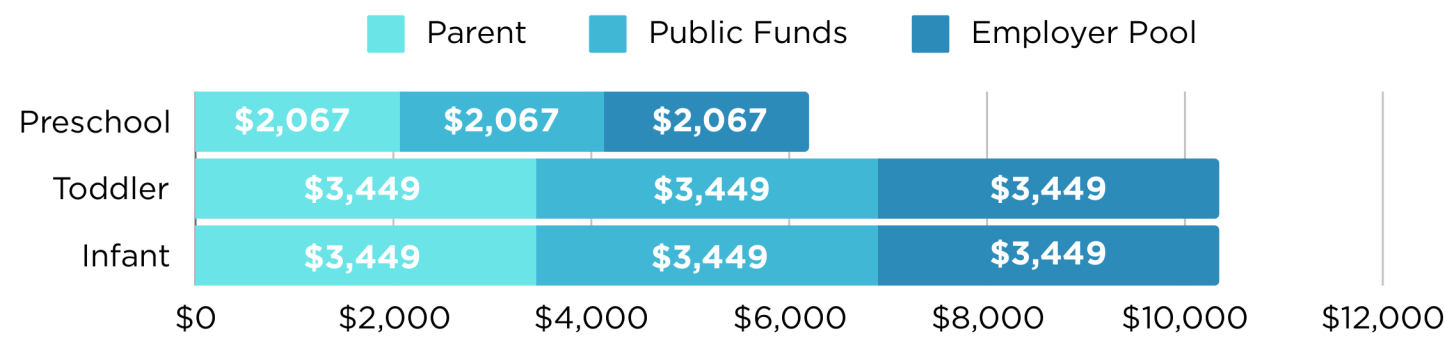
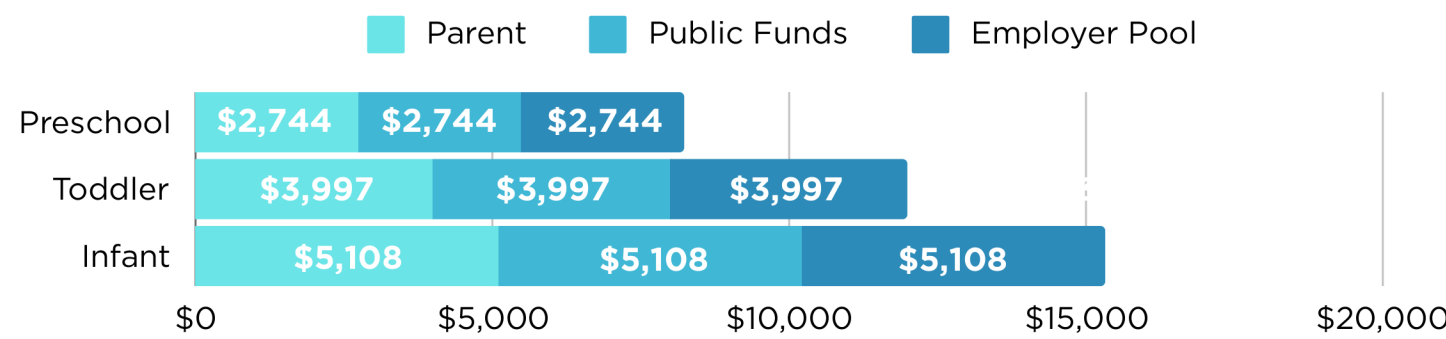


Figure 2. Exploring a Tri-Share Model for Scenario 2, Annual Market Rate Tuition in YSD Facility with Quality Enhancements



Conclusion & Recommendations

Conclusion

Access to child care for Watertown families is complicated. First, there needs to be sufficient supply so that all families who wish to use a child care program have access to choices within their community.

Second, the supply of child care that is available needs to be more affordable for families. Both aspects of the child care landscape are important. Utilization of child care subsidy is related to the supply of care (i.e., not just whether families apply and are determined eligible for assistance). The federal employer-provided child care tax credit (which can be used to support onsite child care or to support employees in accessing child care in the community) can only be used to the extent that employees have access to licensed or registered care²¹ (a challenge in Codington County).

Parents responding to the county survey also mentioned the difficulty in finding child care for infants and toddlers. Some reported waiting lists. For young children, the earliest years are when the brain is growing the fastest – setting the infrastructure for all future social, emotional, physical, and cognitive development, which impacts school readiness and ultimately school performance. Quality, affordable child care is important for children, families, employers, and communities.

Solutions to child care challenges are interconnected – there is no singular solution, no one-size-fits all approach. However, through multiple strategies it is possible for Watertown to address child care challenges as a priority.

Conclusion & Recommendations

Recommendations for Watertown, Employers, and State Policymakers For the Watertown Area Community:

Child Care Workforce. In many other counties in South Dakota, child care programs report a waitlist of children even though they may not be operating at capacity. The development of workforce strategies to support the recruitment and retention of staff is important to maximize choices for parents and to help child care providers operate a sound business model. Watertown may want to consider a survey of regulated child care providers to better understand licensed capacity compared to current child enrollment (and any staffing challenges that may be impacting the ability for programs to fill child care spots). A child care provider survey could also help identify capacity and enrollment by child age.

Child care pay. At 209% of the federal poverty level, child care subsidy eligibility in South Dakota is low (e.g., for a 3-person family, annual income of \$53,964).²² In some states, communities set a higher level of eligibility for child care subsidy (i.e., supplement the state's program). Watertown could consider a subsidy supplement that would enable families with income up to 300% of the federal poverty level (about \$77,460 for a family of 3)²³ to be eligible for subsidy. States determine subsidy eligibility levels for families. The federal child care law allows states to set eligibility up to 85% of state median income²⁴ (which in South Dakota for a family of 3 would be about \$79,699 annually).²⁵ While this could help families with affordability, the limited supply of licensed or registered care will still be a challenge if not also addressed.

Employer Support Matching Grants. In several states, grants are made to match employer contributions to support the child care costs of employees. Codington could consider matching grants that would incentivize employers to help employees and make child care more affordable for families. (e.g., In Kentucky, for families between 85%-100% SMI, the state matches employer contributions with a 100% match. For families above 100% SMI, the match declines by 10% for every 20% increase in income up to 180% SMI. Above 180% SMI, the state match is 50%. Matching grants are restricted to licensed care).

Conclusion & Recommendations

Watertown Recommendations (continued)

Parent Help/Consumer Support. Parents mentioned in the parent survey how difficult it was to find care, how they had to call more than ten places, how frustrating the experience of finding care is. Watertown could hold a meeting with providers (in person or on zoom) to discuss ways to partner to promote full enrollment (and to make it easier for parents to find care). This meeting could be held in partnership with the current provider group meetings: Child Care Providers Matter. Parents are looking for care for children of specific ages so understanding which programs might have a vacancy for the age group parents need could be helpful.

- **Parent Child Care Help.** Watertown could offer parents a list of local child care providers including addresses and contact numbers. Beyond posting a list, some communities offer software to providers that enables provider websites to list vacancies. This helps parents call fewer places because once they visit a web site, they can see immediately if there are any vacancies in the age group they need. One challenge for parents is having to call down a list not knowing whether or not a program has vacancies. LegUp, now owned by Kinside, is one example of software that is easy for providers to use and parents to navigate.²⁶ BridgeCare is another platform, similar to Kinside. Watertown could explore a partnership with Kinside.²⁷ Or BridgeCare.
- **SD Department of Social Services Materials.** The Department of Social Services offers a booklet, “Choosing Child Care in South Dakota”, which contains many questions that parents can ask and lists important aspects of child care for parents to understand. This is currently posted on the Codington Connects Website.²⁸ Watertown could help advertise and support this resource for parents.

Enrichment Offices. The Early Childhood Enrichment regional office offers parent support in finding child care and in supporting healthy child development. SD Enrichment Office are also a great support to providers in the area. South Dakota’s ECE programs offer a systematic approach to providing early childhood and school-age education services and technical assistance. Services are available to all child care and after-school providers, parents and others involved in the day-to-day care of children and youth. Watertown could partner with the regional office to support parents.

Conclusion & Recommendations

Watertown Recommendations (continued)

Parent Help/Consumer Support. Consider offering start up grants (potentially up to \$10,000) to home-based providers to offer registered care. These grants could be used for furniture, fixtures, and equipment that will strengthen their child care business. For example, grants could be used to add an extra refrigerator or counter space, or playground equipment, or to address plumbing, fencing, or other things that promote the safety of children, access to nutritious meals and snacks, and early learning (e.g., children's books, educational toys, etc. These grants could be used as an incentive to become registered.

There are potentially 89 home-based businesses currently operating without regulation (99 home-based providers identified in the U.S. Census Bureau Survey and 10 that are registered by the Department of Social Services). Registered care can be an important way to ensure that children are in settings that meet minimum health and safety requirements (e.g., safe sleep practices for infants).

Regulated care can also serve children in the child care subsidy program. Beyond current home-based businesses offering paid child care services, potentially the availability of a start-up grant may incent new home-based providers to the field.

Child Care Action Team Involvement. The community as a whole can be encouraged to join the Child Care Action Team to lend their voice and support current and future child care strategies. The Childcare Action Team was established as part of a social services strategic planning process. This coalition is working together to address childcare needs. Diverse community involvement will allow for creative, sustainable solutions to be implemented across the community.

Conclusion & Recommendations

Watertown Recommendations (continued)

Business Support of the newly formed In-home Provider Network, Childcare Providers Matter.

A support network for In-home providers is in the development stages. The business community could help recruit and retain registered home-based providers by supporting and partnering with this group. Ideas include hosting a series of business trainings and follow up 1:1 with providers to help them translate the 9 trainings into their everyday practice, for example, record-keeping, cash-flow statements, budget planning, opening a business bank account, obtaining an employer identification number (EIN), and understanding the link between the way they keep their records and federal tax forms (i.e., 100% business deductible expenses reported on IRS Schedule C and the business use of your home and shared business expenses (part business, part personal), which are the components of IRS Form 8829.

Many registered home-based providers enter the business because they enjoy working with children. However, child care is a business and validating and supporting best business practices could enable providers to maximize their income (which may also be an incentive for those who are not registered to become so). Do they have a contract with families (even a one-page set of expectations and rules about payment)?

Also, South Dakota State University is launching an online child care resource platform later this spring. The platform includes a family child care toolkit, which contains many resources including business templates, contract templates (for providers to use with parents), record-keeping templates, and other resources related to child development. Family child care network staff could help providers in accessing the platform, understanding the resources, and strengthening their business practices. Options could also be explored to encourage membership in Childcare Providers Matter.

Conclusion & Recommendations

Recommendations For Employers

Periodically survey employees. The Watertown employer survey found that over three-fifths (63.2%) of employers periodically survey employees related to employee benefits. Every employer could be encouraged to periodically survey employees about their need for employee benefits and also about any challenges with child care

Federal Tax Credit. Employers could be encouraged to review the Employer Provided Child Care Tax Credit²⁹ to see if it would be helpful to their business and employees. The tax credit is worth 25 percent of expenditures for child care, up to \$150,000 annually.³⁰ It can be used for either onsite child care or support for employees to access child care in the community. The credit can only be used if parents are accessing licensed care.³¹

Employee Scheduling Notice. To the extent possible, employers could be encouraged to implement policies to ensure that their employees have at least 2 weeks' notice related to their work schedule. It is difficult to arrange child care, but even more difficult for employees on short notice.

Employer Matching Grants. Employers could be encouraged to coordinate and collaborate with Economic Development Offices on the structure of a matching grant program to match employer contributions toward child care for their employees. For example, if an employer offered employees \$200 per month to help make child care more affordable, the county could match the employer's contribution so that the employee has the help of \$400 per month as part of an affordability strategy.

Dependent Care Assistance Plans. The Codington employer survey found that 12.5% of employers offer Dependent Care Assistance Plans where employees can set aside up to \$5,000 tax-free to be used as reimbursement for child care costs. Employers could be encouraged to review whether DCAPs would help their employees.

Conclusion & Recommendations

Recommendations for State Policymakers

Comprehensive Child Care Modeling Study. Conduct a comprehensive child care modeling study to better understand the true cost of child care (per child) at varying levels of quality by age of children served, setting type, and geography/location. This type of study would build on the narrow cost analysis study conducted by the Department of Social Services in 2022.³²

Child Care Subsidy Provider Payments. Increase child care subsidy rates aligned with the cost model study once completed. Consider other strategies to expand access to child care based on information obtained through the child care cost study exercise.

Raise Visibility About the Child Care Assistance Program. It is unclear whether the low utilization of child care subsidies by families in South Dakota is related to families not being aware of the subsidy program, the lack of child care supply, the link between low-wage jobs and their likelihood to involve a greater proportion of shift work (i.e., nontraditional hour care is difficult to find), or other reasons.

The Department of Social Services should wage a public information campaign related to the subsidy program to ensure that all parents know about how it may help them access child care.

Increase Child Care Subsidy Eligibility. At 209% of the federal poverty level, child care subsidy eligibility in South Dakota is low (e.g., for a 3-person family, annual income of \$53,964).³³ The federal child care law allows states to set eligibility up to 85% of state median income³⁴ (which in South Dakota for a family of 3 would be about \$79,699 annually).³⁵

Increasing child care subsidy eligibility for families with income up to 300% of the federal poverty level (about \$77,460 for a family of 3)³⁶ would be much closer to the 85% SMI allowed. While this could help families with affordability, the limited supply of licensed or registered care will still be a challenge if not also addressed.

Conclusion & Recommendations

Recommendations for State Policymakers

Start-up grants to Expand Home-based Care that Meets Registration Requirements.

Consider offering a \$2,500 - \$3,000 start up grant to home-based providers to offer registered care. There are potentially 2,000 home-based businesses currently operating throughout South Dakota without regulation.³⁷

Registered care can be an important way to ensure that children are in settings that meet minimum health and safety requirements (e.g., safe sleep practices for infants). Regulated care can also serve children in the child care subsidy program. Beyond current home-based businesses offering paid child care services, potentially the availability of a start-up grant may incent new home-based providers to the field.

Staff Pay and Benefits (Telemedicine Benefit). Child care wages in SD are low (\$11.97 per hour). Consider a wage supplement program such as Minnesota³⁸ and Maine³⁹ have implemented to boost wages to better recruit and retain child care workers in the field.

For workforce benefits, Optima Benefits & Payroll offers a telemedicine benefit for \$8 per month for an employee (and her family) to access board-certified doctors 24/7 by video or phone (\$96 annually). Telemedicine combined with teletherapy (mental health counseling) is available for \$14 per month (\$168 annually).

While this benefit is not for emergency services, it offers an opportunity for health coverage with no deductibles and no co-pays. While several shared service projects across the country are offering telemedicine as a child care workforce benefit, the state of Nevada, through its child care workforce registry, is offering the Optima telemedicine benefit to its entire child care workforce.⁴⁰

Stabilization/operating grants for licensed and registered programs. Child care programs report continued struggles with increasing costs to operate. With the child care workforce shortage, programs have waiting lists for care and yet not enough staff to enable full enrollment. A stabilization or operating grant for licensed programs should be considered so that providers do not increase rates for parents who are already challenged by the current price of child care.

Conclusion & Recommendations

Recommendations For State Policymakers (continued)

Child care capacity data by age of the child. Many families throughout South Dakota have a hard time finding child care in their community. Currently, the Department of Social Services does not have licensed capacity data by age. If capacity data were available by age, the state and communities could be better positioned to craft targeted strategies (e.g., the expansion of infant and toddler care or school-age care) depending on what the data shows related to the licensed capacity by age compared to the potential need by age.

Nontraditional Hour Care. The U.S. Department of Health and Human Services released an updated final rule for the Child Care and Development Fund (CCDF) on March 1, 2024.⁴¹ The final rule requires states to use some funding for grants and contracts with providers. The Department of Social Services (DSS) could consider contracts with local licensed or registered providers to financially incent the provision of care during nontraditional hours.

Employer Matching Grants. Several states (Kentucky, Michigan, New York, North Dakota, Texas, and Wisconsin) have enacted legislation to offer employers a grant to match their contributions to support employee child care needs. For example, if an employer offered employees \$200 per month to help make child care more affordable, the state could match the employer's contribution so that the employee has help of \$400 per month as part of an affordability strategy. This would be a partnership between the state, employers, and parents that would help address the affordability of care in many communities.

Child Care Shared Services Projects.

There are many shared services projects throughout the country. Although some are operated statewide, most are operated within communities to best meet provider needs in a region.

- **Family Child Care Home Network.** To grow and support registered family child care home providers, consider several regional family child care networks where staff support monthly (evening) Zoom meetings. This is an opportunity to reduce the isolation home-based providers often feel by providing them with a community. Here, they will have a chance to discuss best business and child development practices, and offer an opportunity for learning and discussion.
- **Child Care Center Director Network:** A similar shared services project could operate within regions to support child care center directors, a community of practice for directors. Both groups enable providers to learn, network, and share strategies to address common challenges.

Conclusion & Recommendations

Recommendations For State Policymakers (continued)

Child Care Shared Services Projects (continued)

- **Online Shared Resources Platform.** CCA for Social Good operates an online child care resource platform currently operating in 35 states. The platform offers over 2,000 resources for providers. Included within the platform (which can be customized to link to state policies) is Acquire4Hire, a jobs board where directors can post staff positions that automatically appear across 15+ other job sites, including Indeed.com, LinkedIn, Glassdoor, ZipRecruiter, etc. Acquire4Hire could help with the current workforce shortage. The platform also includes discounts on frequently purchased products, business templates, and child development information. Lastly, the platform includes an online family child care toolkit to help family child care providers run their businesses and offer high-quality care.

Footnotes

- 1) U.S. Census Bureau, [Table B23008](#) Age of Own Children Under 18 Years in Families and Subfamilies by Living Arrangements by Employment Status of Parents, 2022 American Community Survey, 5-Year Estimates. Estimates for the number and percentage of school-age children age 5-14 in working families are calculated based on the [Child Population by Age Group in South Dakota by County](#), Kids Count South Dakota and [Children with All Available Parents in the Labor Force by Age by County](#), Kids Count South Dakota.
- 2) Ibid.
- 3) U.S. Census Bureau, [Table B23008](#) Age of Own Children Under 18 Years in Families and Subfamilies by Living Arrangements by Employment Status of Parents, 2022 American Community Survey, 5-Year Estimates.
- 4) Estimates for the number and percentage of school-age children age 5-14 in working families are calculated based on the [Child Population by Age Group in South Dakota by County](#), Kids Count South Dakota and [Children with All Available Parents in the Labor Force by Age by County](#), Kids Count South Dakota.
- 5) South Dakota Department of Social Services, December 2023. Early Learner South Dakota [Child Care Landscape Mapping Project](#).
- 6) Ibid.
- 7) Kids Count South Dakota, Licensed or registered child care capacity in South Dakota, 2023.
- 8) Kids Count South Dakota, Licensed before and after school program capacity in South Dakota, 2023.
- 9) Kids Count South Dakota, Licensed or registered child care capacity in South Dakota, 2023; U.S. Census Bureau, [Table B23008](#) Age of Own Children Under 18 Years in Families and Subfamilies by Living Arrangements by Employment Status of Parents, 2022 American Community Survey, 5-Year Estimates.
- 10) U.S. Census Bureau, Census Bureau Economic Survey, NS2100 NONEMPAI Sectors: Non-employer Statistics by Legal Form of Organization and Receipts Size Class for the U.S., States, and Selected Geographies: 2021.
- 11) Codington County Welfare Office and the Child and Family Resource Network (CFRN) at South Dakota State University, 2022 Codington County Child Care Survey, January 2023.
- 12) Ibid.
- 13) Kids Count South Dakota, [Child Care Assistance Program: An Opportunity for South Dakota to Improve the Child Care System](#), January 2023.
- 14) Ibid.
- 15) South Dakota Department of Social Services, [Child Care Assistance Program](#).
- 16) Kids Count South Dakota, [Child Care Assistance Program: An Opportunity for South Dakota to Improve the Child Care System](#), January 2024.
- 17) Ibid.
- 18) South Dakota Department of Social Services, Child Care Assistance Program, FAQs
- 19) Ibid.
- 20) The Employer-Provided Child Care Tax Credit, [26 U.S. Code § 45F](#); [Tax Form 8882](#)
- 21) The Employer-Provided Child Care Tax Credit ([26 U.S. Code § 45F](#))
- 22) On January 17, 2024, the U.S. Department of Health and Human Services released the [2024 Federal Poverty Guidelines](#) (which are updated annually). The HHS Office of the Assistant Secretary for Policy and Evaluation [posts a table by varying levels of poverty](#) for ease of use.
- 23) Ibid.
- 24) [Child Care and Development Block Grant](#), P.L. 113-186.
- 25) U.S. Census Bureau, [Table S1903](#) Median Income in the Past 12 Months (in 2022 Inflation-Adjusted Dollars), 2022 American Community Survey, 1 Year Estimates.
- 26) LegUp/Kinside software. <https://www.legup.care/>
- 27) Kinside. <https://www.legup.care/advocates>
- 28) SD Department of Social Services, Choosing Child Care in South Dakota. <https://dss.sd.gov/formsandpubs/docs/CCS/choosingchildcareinSD.pdf>
- 29) The Employer-Provided Child Care Tax Credit, [26 U.S. Code § 45F](#).
- 30) Ibid.
- 31) Ibid.
- 32) South Dakota Department of Social Services, Division of Economic Assistance, [Child Care Cost of Care Analysis, Final Report September 2022](#).
- 33) On January 17, 2024, the U.S. Department of Health and Human Services released the [2024 Federal Poverty Guidelines](#) (which are updated annually). The HHS Office of the Assistant Secretary for Policy and Evaluation [posts a table by varying levels of poverty](#) for ease of use.
- 34) [Child Care and Development Block Grant](#), P.L. 113-186.
- 35) U.S. Census Bureau, [Table S1903](#) Median Income in the Past 12 Months (in 2022 Inflation-Adjusted Dollars), 2022 American Community Survey, 1 Year Estimates.
- 36) Ibid.
- 37) Early Learner South Dakota, [Child Care Mapping Project](#), SD Child Care Sole Proprietors (Unregulated).
- 38) Minnesota Department of Human Services, [Great Start Compensation Support Payment Program](#), 2023.
- 39) Maine Department of Health and Human Services, [Early Childhood Educator Workforce Salary Supplement Program](#), 2023.
- 40) Nevada Child Care Registry, [Telehealth Services Benefit Program](#).
- 41) U.S. Department of Health and Human Services, 45 CFR Part 98, RIN 0970-AD02, Improving Child Care Access, Affordability, and Stability in the Child Care and Development Fund (CCDF), [Final CCDF Rule](#), March 1, 2024.