



Watertown Child Care Investment Strategy Report

Final Report

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Report produced by
KVG Consulting



Contributing partner:
Dakota Institute

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Executive Summary

At the request of the Watertown Development Corporation, KVG Consulting conducted an extensive study to identify sustainable investment strategies to address the child care affordability and workforce needs within Watertown communities.

Access to reliable, high-quality childcare remains a significant challenge for families, providers, and employers alike. The high cost of care places financial barriers on families, while low pay and workforce shortages strain already struggling child care providers. Furthermore, employers face difficulties with retention and recruitment when their employees can't find reliable childcare.

The following report outlines three investment strategies tailored to address the unique childcare challenges Watertown faces.

1. Tri-Share Model

The first investment strategy reviewed in this report is the Tri-Share Model. This is an adapted approach taken from the successful programs launched in several Michigan communities and Rapid City, SD. Tri-Share aims to distribute the cost of childcare among employers, employees, and a community investment pool. In Watertown's case, local businesses and philanthropic contributions would serve as a replacement for the state's traditional contribution.

This approach offers significant benefits for retention, affordability, and provider sustainability. It is essential to note, however, that challenges persist in fundraising, administrative capacity, and employer recruitment. If utilizing this approach, KVG recommends a small cohort to demonstrate value and build momentum.

2. Scholarship Fund

Our second investment recommendation involves establishing a scholarship fund. This model provides direct tuition assistance to families, bridging the affordability gap for those who fall outside of subsidy eligibility but still struggle with the cost of care.

A strong, local example of this program at work can be seen through Starting Strong in Rapid City. To implement this strategy in Watertown, a community-administered scholarship fund would be supported through pooled philanthropy, small donor contributions, and business matching.

This model is flexible, with simple messaging; however, a challenge Watertown may face is that this sort of investment strategy requires consistent fundraising and careful administration to ensure sustainability. Over the course of 20 years, this strategy could serve more families than in the traditional Tri-Share model, but at a higher overall cost.

3. Child Care Workforce Support Fund

Our last recommended investment strategy is a Child Care Workforce Support Fund. This is adapted after Kentucky's child care worker benefit and South Dakota's recent legislative efforts.

The strategy establishes free or heavily subsidized child care for child care employees. By reducing financial burdens on these employees, the retention, recruitment, and overall strength of the childcare sector is improved. A workforce support fund would also increase the number of available child care slots for families.

While the direct benefits from this model are significantly smaller in scale, the indirect community impact is significant; however, a challenge to this model is that it requires an ongoing investment.

Key Findings

- All three recommendations require a sustained local investment, with projected 20-year fundraising needs ranging from \$1.9 million (Tri-Share) to \$4 million (scholarships)
- Different models highlight different priorities:
 - Tri-Share focuses on employer engagement.
 - Scholarships focus on family reach
 - Workforce support focuses on employee stability.
- For each model, KVG recommends a phased pilot approach combined with community engagement. This is essential for achieving a return on investment and establishing long-term growth and sustainability.

Conclusion

Watertown is presented with a unique opportunity to design a community-based solution that directly supports working families, the child care workforce, and economic development. While we understand that there is no single strategy that will solve every childcare challenge, each model offers a pathway for both immediate impact and long-term growth and sustainability.

KVG encourages Watertown's leadership to consider combining elements of each approach and looking into sustainable funding methods, including philanthropy, business partnerships, and local revenue sources. In doing so, Watertown ensures that child care is a foundational support for its communities and economy.

Introduction

The Watertown Development Corporation hired KVG Consulting to research and identify up to three investment strategies to support the city's child care affordability needs.

We are pleased to provide an overview of three potential investment opportunities for the city to choose from. These recommendations are based on effective solutions that states and other communities, both in South Dakota and elsewhere, have found to work well in meeting families' needs. Every community is different, and it is worth noting that there are pros and cons for Watertown to consider for each strategy. Below is our overview and recommendations, which include a description of implementation options, funding requirements, long-term growth prospects, and the return on investment for each program.

Investment Strategy: Tri-Share

Tri-Share is a child care cost-sharing model that originated in Michigan in 2021 and is now utilized in various states across the country. While most states have some form of funding and a participating state department, the Rapid City Tri-Share program is an example of a philanthropy-based program. In this scenario, the John T. Vucurevich Foundation is representing the role that the state typically plays. A Tri-Share cost-sharing program equally divides the cost of care among the employer, the employee (or parent), and the state. In the case of Watertown, a 'local facilitator hub' will take the place of the state.

We will first describe Tri-Share and how it typically works in other states, explain the benefits, and then discuss an adapted version for Watertown.

Here is a step-by-step breakdown of how the Tri-Share process works¹

1. A business enrolls in the program and identifies eligible employees.
2. An employee must apply and fall within a specific income range (too high for subsidies, too low to afford full child care costs, or other limitations that are set by the community).
3. The family selects a licensed provider they trust.
4. Each party pays 1/3 of the monthly child care bill:
 - Employer typically deducts the employee's share from payroll.
 - State and employer each contribute their share through the hub.
5. The facilitator hub combines all payments and pays the provider directly.

¹Public Sector Consultants, MI Tri-Share Pilot Evaluation, 2022

The top benefits that were found in Michigan through this model, as stated in their 2024 evaluation:

Benefit	Who it Helps	Why it Matters
Lower Child Care Costs	Employees	Saves families hundreds per month—typically a 66% reduction. ²
Improved Retention & Recruitment	Employees	Offers a unique, flexible benefit that helps retain talent. ³
More Reliable Revenue	Providers	Reduces payment gaps and helps stabilize business. ⁴
Reduced Administrative Burden	Everyone	The hub handles the heavy lifting—eligibility, payments, support. ⁵

There were, however, noted limitations to the program in Michigan, which are stated below.⁶

The evaluation concluded that some limitations included the program's non-universality, as it only assisted families within a specific income range. There was also notably limited employer participation, due to the cost associated with the program, as not all employers were able to afford offering the benefit to eligible employees. The overall access to child care also remained a challenge. Although affordability had improved, it hadn't solved the provider shortage. Finally, the state match requirement in this model would be an ongoing state investment and essential to the program's success.

Adapted Tri-Share Model for Watertown

When adapting the Tri-Share model for Watertown, where a local investment pool would replace the state's funding contribution, it's important to acknowledge that this shift may introduce new challenges and potential limitations. However, with a thoughtful cost-benefit analysis and careful consideration of funding structures, Watertown can identify both the challenges and the substantial opportunities this model offers.

Modified Cost-Share Breakdown

- 1/2 Paid by Employee or Parent
- 1/4 Paid by Employer
- 1/4 Paid by Local Investment Pool
(Rather than the state)

In this model, some investors may also be employers, effectively contributing two-thirds of the cost for their participating employees (similar to some Michigan employers who have chosen to pay the employee portion as well).

²Public Sector Consultants, MI-Tri Share 2024 Evaluation Report, Key Findings PSC MI-Tri Share Employer Survey (2024)

³Public Sector Consultants, MI-Tri Share 2024 Evaluation Report Key Findings PSC MI-Tri Share Employer Survey, (2024)

⁴Public Sector Consultants, MI-Tri Share 2024 Evaluation Report Key Findings PSC MI-Tri Share Employer Survey, (2024)

⁵Public Sector Consultants, MI-Tri Share 2024 Evaluation Report MI Tri-Share Pilot Evaluation Recommendations, (2024)

⁶Public Sector Consultants, MI-Tri Share 2024 Evaluation Report Key Findings PSC MI-Tri Share Employer Survey (2024)

Watertown-Specific Recommendations:

1. Clarify and Document Dual Roles for Investors/Employers

Consider allowing tiered participation levels for investors (e.g., pool-only vs. pool + employer). Suppose any employer is also an investor in the 'investment pool', giving one-third of the child care fees to their employee. In that case, it should be adequately explained how their investment will be translated into benefits for the community as a whole, as opposed to their direct employees. Watertown should also consider leaving an option for an employer to do one or the other, not necessarily both.

2. Design a Watertown Investment Hub

Establish a single, locally trusted facilitator hub (e.g., Watertown Development Company, United Way, or an ECE coalition). This hub would serve as a way to administer funds and process payments, vet family and employer eligibility, provide personalized navigation support, and report outcomes to the investment group.

3. Establish a Community Investment Fund

Watertown would use this time to develop a pool of funds that could be sourced from various areas within the community. Those areas could include: employers (as investors and/or program participants), local philanthropies, health systems, utilities, financial institutions, and chambers. When collecting investments, Watertown will want to ensure that it uses clear language, such as 'this is not a donation, this is a workforce retention strategy.' As well as develop clear operational systems that enable investors to understand how the funds will be utilized.

4. Pilot with a Small Cohort

The best way to begin this process is to start with a small pilot group, consisting of approximately 10–15 families, 3–5 employers, and a limited number of providers. Ensure to track key metrics, such as absenteeism, productivity, and employee satisfaction. This will enable you to begin with a modest investment pool and gradually grow the program over time.

5. Adjust Eligibility to Match Local Realities

- Define a local income threshold equivalent to 200–325% of FPL
- Consider factors such as family size, the cost of care, and the lack of other available subsidies.

Pros and Cons for Watertown:

The benefits of this program would include:

- Local control: Decision-making stays within the community, allowing for more flexible and responsive implementation.
- Private Investment Leverage: Investors receive a tangible return in the form of enhanced workforce outcomes and community goodwill.
- Employer Retention Tool: Businesses struggling with retention can use this as an employee benefit.
- Tailored to Community needs: Watertown can set eligibility bands and provider engagement strategies to reflect real local conditions.
- Strong Pilot Visibility: With one hub and a small radius, the program can be highly visible and demonstrate quick impact.

Potential Challenges may include:

- Unlike the Michigan model, this approach would result in less overall funding and would require the community to raise the necessary funds for the program.
- Places an administrative burden on a small hub to implement all areas of the Tri-Share program
- Recruitment of diverse employers: Based on the level of investment, recruiting small businesses may prove to be a challenge.
- Supply: The current supply may not allow new employees to enter into the child care system and may only be beneficial to employees currently using child care slots in Watertown.

The good news is that there are options for Watertown to mitigate these concerns. Employers making a seemingly ‘double’ investment could be shown the ROI through retention, as presented in this report. Employers could also be offered flexible participation in the program, like paying for one slot or matching only part of the one-third contribution. Watertown could then utilize testimonials from early adopters to help encourage the program's future growth.

Cost Analysis of the Tri-Share program for Watertown:

Key factors that influence the ultimate program cost for the Tri-Share model depend on a few key factors, including

- Current childcare costs,
- The number of children or families participating in the program, and
- How costs are split between the parents, businesses, and the community fund.

Our communications with area providers showed that the average market rate for children aged five and under was \$206 per week or \$824 per month, assuming a typical four-week month. Some area providers offer more affordable care, and any future childcare fund should take advantage of lower rates where possible to maximize the use of its funding resources.

Our cost analysis also focuses on a program that starts small, serving 12 children in its first year. We assume the program will expand to include three more children every three years and serve thirty children annually after twenty years of operation. Finally, we assume that the Watertown Tri-Share program is split 50:25:25 — parents pay 50% of childcare costs, businesses pay 25%, and the fund pays the remaining 25%. We also assume that the fund is responsible for its own management, which includes coordinating communication and payments between parents, businesses, and childcare providers.

Table 1 outlines the baseline assumptions in our financial model for the Tri-Share program. In addition to the model assumptions we discussed above, Table 1 shows that we assume the community fund’s management costs for the program start at \$2,000 per month, which could support a partial FTE employed within an existing organization within the community or contracted services. We assume that the program's management costs and overall childcare costs will increase at a rate of 2% annually throughout the program's lifetime.

Table 1: Tri-Share Financial Model	
Number of children in the first year	12
Number of new children every 3 years	3
Weekly cost per child	\$206
Monthly cost per child	\$824
Annual cost escalation rate	2%
Parent cost share	50%
Business cost share	25%
Community fund cost share	25%
Monthly management fee	\$2,000
Fundraising goal in year 1	\$250,000
Annual investment return rate	5%

Finally, our cost model sets a fundraising goal of \$250,000 to kick-start the program, and these funds will be invested in a manner that generates an average annual return of 5%. Future fundraising goals are assumed to increase by \$10,000 every time it is necessary to raise additional funds.

Figure 1 and Table 2 provide another view by reporting total or aggregate costs across all families, businesses, and the community fund. Under the Tri-Share model, parents as a group would pay \$4,944 per month [11] for childcare, and their monthly costs would rise to \$18,006 in 2044. The business’s share begins at \$2,472 per month and reaches \$9,003 per month in 2044. Finally, the fund’s cost share, which includes the management fee, begins at \$4,472 per month and increases to \$11,917 by 2044.

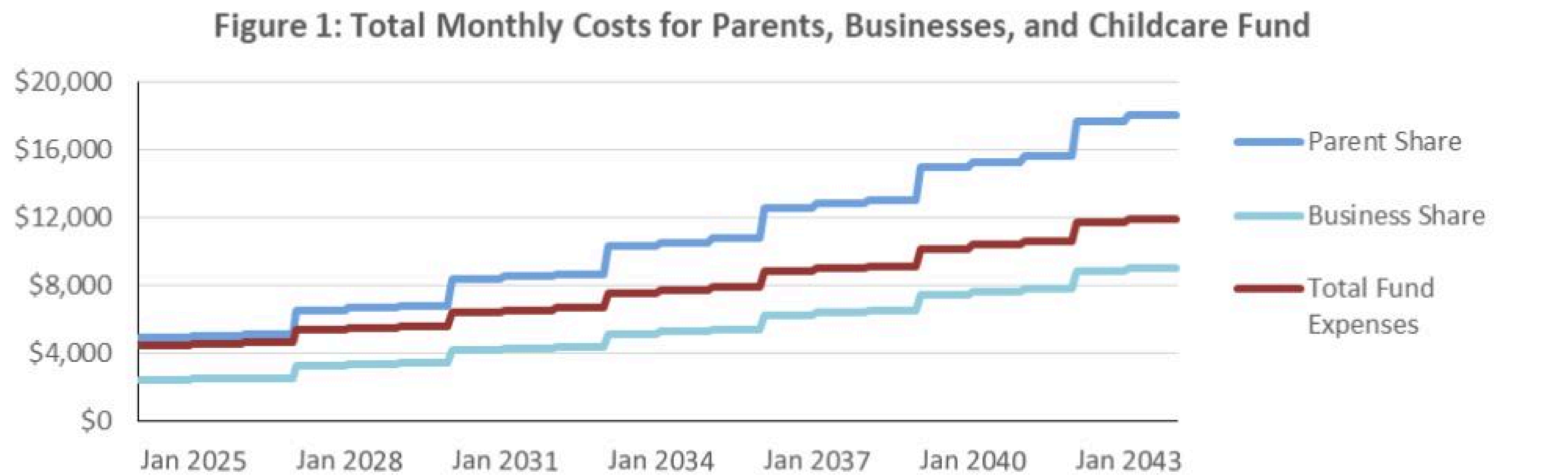


Table 2: Tri-Share Financial Projections

Year	Number of Children	Childcare Cost (Parent Share)	Childcare Cost (Business Share)	Childcare Cost (Fund Share)	Management Costs	Total Fun Expenditure	Fundraising Need
2025	12	\$59,328	\$29,664	\$29,664	\$24,000	\$53,664	\$250,000
2026	12	\$60,515	\$30,257	\$30,257	\$24,480	\$54,737	\$0
2027	12	\$61,725	\$30,862	\$30,862	\$24,970	\$55,832	\$0
2028	15	\$78,699	\$39,350	\$39,350	\$25,469	\$64,819	\$0
2029	15	\$80,273	\$40,137	\$40,137	\$25,978	\$66,115	\$260,000
2030	15	\$81,879	\$40,939	\$40,939	\$26,498	\$67,437	\$0
2031	18	\$100,219	\$50,110	\$50,110	\$27,028	\$77,138	\$0
2032	18	\$102,224	\$51,112	\$51,112	\$27,568	\$78,680	\$0
2033	18	\$104,268	\$52,134	\$52,134	\$28,120	\$80,254	\$270,000
2034	21	\$124,079	\$62,040	\$62,040	\$28,682	\$90,722	\$0
2035	21	\$126,561	\$63,280	\$63,280	\$29,256	\$92,536	\$0
2036	21	\$129,092	\$64,546	\$64,546	\$29,841	\$94,387	\$280,000
2037	24	\$150,484	\$75,242	\$75,242	\$30,438	\$105,680	\$0
2038	24	\$153,494	\$76,747	\$76,747	\$31,047	\$107,794	\$0
2039	24	\$156,564	\$78,282	\$78,282	\$31,667	\$109,950	\$290,000
2040	27	\$179,657	\$89,829	\$89,829	\$32,301	\$122,129	\$0
2041	27	\$183,250	\$91,625	\$91,625	\$32,947	\$124,572	\$0
2042	27	\$186,915	\$93,458	\$93,458	\$33,606	\$127,064	\$300,000
2043	30	\$211,837	\$105,919	\$105,919	\$34,278	\$140,197	\$0
2044	30	\$216,074	\$108,037	\$108,037	\$34,963	\$143,001	\$310,000
Total		\$2,547,140	\$1,273,570	\$1,273,570	\$583,137	\$1,856,707	\$1,960,000

Table 2 provides a broader overview of our Tri-Share financial model and its projections. The final two columns report the key findings regarding the annual expenditures from the community fund and its fundraising needs. Costs increase steadily over time as the program expands to support more children, and the need for additional fundraising increases significantly over time. As we introduced above, our model assumes the community fund will begin with a fundraising goal of \$250,000 and will increase its fundraising goal by \$10,000 with every campaign. The initial fundraising will cover the program through its first five years; however, subsequent campaigns will eventually be overwhelmed by the program’s funding needs. Our model indicates a need to raise \$300,000 in 2042; however, this campaign would only cover 24 months of childcare costs, as per our model.

In total, our model indicates that a community fund using a Tri-Share model would need to raise between \$1.6 and \$1.9 million over twenty years to have the impact imagined here. This program would potentially serve 137 individual children and families over its twenty-year life, assuming the average child is supported for three years. The average family would save \$18,592 in childcare costs over the three years their child was supported by the program. This average annual savings of \$6,197 equates to 7% of the median family income for households with parents aged 25 to 34 in Codington County.⁷

From this business's perspective, this can be a particularly effective and beneficial program. The company is responsible for only half of the childcare subsidy, \$3,098 annually or \$9,296, on average, over the twenty-year period, which may or may not be significant to the business's overall financial position, but the childcare support is a temporary, or one-time, cost for any given employee, unlike a permanent increase in salary or benefits. Moreover, the business's contribution to childcare costs can be a valuable recruitment tool to attract young workers who are likely to develop strong ties to the company, supporting continued employment and firm loyalty.

NOTE: There are other state examples that are loosely related to Tri-Share. They are not a replica of this program, but they focus on affordability for families. An example would be the Employee Child Care Assistance Partnership in Kentucky. With this model, the state matches employer support for employee child care affordability. In this way, if an employer decided to offer \$200 a month to support child care for an employee's child, then the state would match the \$200 per month. Families are required to meet particular income eligibility requirements to participate.⁸

⁷ Based on 2023 5-Year ACS household and family income statistics for Codington County and authors calculations.

⁸ Kentucky House Bill 499 (2022)

Investment Strategy: Scholarship program

How Child Care Scholarship Programs Typically Work

The core components of scholarship-based models generally include:

- A central fund or budget, supported by donors, businesses, government entities, or foundations.
- A lead administrative agency (nonprofit, school district, or local government office) that processes applications and distributes funds.
- Eligibility is typically based on factors such as household income, residency, employment status, or other family circumstances.
- Families are matched with licensed child care providers who are paid directly by the program or reimbursed later.

Examples: *Starting Strong (SD), Lincoln Littles (NE), Burlington Early Learning Initiative (VT), and Childcare Resources Alabama*⁹

Starting Strong: Rapid City, South Dakota

There are many strong scholarship programs to point to around the US, but Starting Strong is a long-term local program that meets the unique needs of a community right here in South Dakota. Starting Strong is a well-regarded local scholarship program managed by Early Childhood Connections in Rapid City. The program provides need-based financial assistance to working families who do not qualify for state subsidies but still struggle to afford care. Its core features include:¹⁰

- Eligibility based on income: 325% of FPL
- Scholarships cover part or all of the tuition at participating regulated preschools or child care facilities
- Managed locally through Early Childhood Connections
- Funded by local philanthropies and individual donors
- Designed specifically to reach the "working middle" who are often ineligible for other supports

As Watertown explores child care investment strategies, the Starting Strong program in Rapid City offers a relevant, locally-governed scholarship model focused on increasing access to high-quality preschool for low- to moderate-income families. Although originally framed as a scholarship model, Starting Strong has evolved into a classroom-based approach, providing both tuition assistance and quality enhancement dollars.

⁹ Alliance for Early Success, *Survey of Child Care Scholarship Programs*, (2024)

¹⁰ Early Childhood Connections, *Starting Strong Program Overview*, (2024)

Program Overview and Structure:

Starting Strong is managed by Early Childhood Connections (ECC) and primarily funded by the John T. Vucurevich Foundation (JTVF). It provides scholarships to three and four-year-olds who do not qualify for Head Start but still need assistance. Families choose from licensed providers, including private, nonprofit, faith-based, and in-home programs. Providers are reimbursed up to their market rate for approximately three hours of preschool instruction per day. The investment in the Starting Strong program in 2024 was \$953,000, and an anticipated budget of \$ 1.3 million is planned for the program this year. More information is available at:

<https://www.earlychildhoodconnections.com/program-information>

The Top Benefits of Scholarship-Based Models:

- Benefits for families: reduced or no cost for care, if the scholarship were to cover a child care assistance co-pay fee. Either would eliminate a significant barrier to employment and financial stability.
- Benefits for providers: funding is predictable and paid directly, increasing the financial health and stability of the program.
- Benefits for communities: Scholarship programs often serve families excluded from federal/state aid.

Common Limitations of Scholarship Models¹¹

- Ongoing Fundraising Required: Programs depend on sustained donor engagement and philanthropic support. Furthermore, a significant portion of support comes from a single philanthropic entity.
- Limited Reach: Funding levels typically allow service to only a small number of families.
- Not Scaled Statewide: Most models are locally focused, which may limit portability or equity across regions. The implementation may vary greatly from community to community, and results may differ, as seen in other regions or states.
- Administrative Burden: Program administration may be complex, especially when balancing equity and operational capacity.
- Limited care hours: the scholarship program only funds 3 hours a day, which may lead to restrictions, as most parents need full-day care.

¹¹ ECIC, *How Michigan's Economic and Workforce Development Organizations Would Solve the State's Child Care Crisis*, (2025)

Limitations in the research of scholarship programs:

KVG researched a total of five feasible programs when seeking scholarship models. The scholarship programs were located in South Dakota, Alabama, Vermont, Pennsylvania, and Nebraska. These models were similar in structure but varied to a certain degree. The limitation of these programs is that there have been no formal or publicly documented reports on any of the programs to assess their feasibility or long-term sustainability.

The Allegheny County Child Care Matters Program in Pittsburgh, Pennsylvania, is the only program that has initiated an evaluation; however, it is still too new in its program to have any final evaluation results. Starting Strong, however, has been around since 2012 and continues to raise funds and provide preschool services to approximately 80 children and 7 providers in total, according to a Starting Strong official.

Adapted Scholarship Model for Watertown

Watertown could implement a local scholarship model to address affordability gaps for families above the state subsidy threshold. A scholarship approach could be locally governed, highly flexible, and privately supported. Many considerations will be similar in structure to the Tri-Share model.

Modified Scholarship Structure

- Creation of a central Watertown Child Care Scholarship Fund.
- Eligibility applies to families between 200–325% of FPL, depending on local benchmarks.
- Families apply to the hub or fund administrator for tuition assistance.
- Participating licensed child care providers are reimbursed directly.
- Partner organizations (e.g., United Way, foundations, city, and employers) may contribute to the fund.
- Consider a dedicated revenue source to finance the fund, with other contributions to supplement.

1. Create a Local Scholarship Fund

Establish a community-administered fund with pooled dollars from local philanthropic organizations, employers, civic organizations, local government, health institutions, and more.

Another example is the Iowa Child Care Solutions Fund, where employees contribute a locally determined amount (let's say \$100 per employee per year). That money is then allocated to a fund. A local economic development board then collaborates with stakeholders to determine priorities for funding investment. It might be child care wage supplements, affordability for families, or startup funding to expand the number of providers. The fund is allocated based on local priorities, but the base comes from **(1)** employee contributions, **(2)** local revenue/appropriated funds, and **(3)** donations.¹²

2. Use a Trusted Administrator

Strong candidates for a trusted administrator to oversee the scholarship fund could include Watertown Development Company, Watertown United Way, Codington Connects, or the local school district.

Considerations: Selecting a trusted partner to administer child care scholarship funds is essential to the program's success. The administering organization should have credibility in the community, strong relationships with families and providers, and the infrastructure to manage funds transparently. A reliable partner ensures that eligibility is verified accurately, outreach is effective, and payments are handled efficiently. Their neutrality and community trust also help build buy-in from funders, families, and stakeholders. Ultimately, the right administrator serves as the backbone of the program, ensuring both operational integrity and long-term sustainability.

¹² Common Sense Institute of Iowa, Iowa's Child Care Solutions Fund: A Model for Closing the Childcare Gap (2024)

3. Integrate with Local Child Care Ecosystem

Scholarship recipients must select licensed providers and those that the local administrator has adequately vetted. Partnerships with local centers or in-home providers will allow you to streamline billing and reporting.

Considerations: Requiring scholarship recipients to use licensed child care providers ensures that children are in safe, regulated environments that meet state health and safety standards. It also allows the program to maintain accountability, track attendance and payments, and reduce the risk of misuse or fraud. Most child care scholarship programs, including Starting Strong in Rapid City, follow this approach to protect both families and funders. Supporting licensed care also helps strengthen the formal child care system, giving local providers more financial stability and encouraging quality improvement across the sector.

4. Start with a Pilot and Build Over Time

Watertown should consider starting with 15–25 families and a small group of providers. Use this phase to evaluate demand, cost, and retention outcomes.

Pros and Cons for choosing a Scholarship investment:

The benefits of this program would include:

- Simple Messaging: can easily communicate your purpose and intent.
- Flexible Design: Watertown can define income cutoffs and funding rules as needed.
- Targeted Reach: Focuses on the "families in the gap" or those earning too much for subsidies but too little to afford the full cost of care. This may also include those who qualify for child care assistance, but the aid has a co-pay that is nearly the full rate, making it unaffordable for families.
- Community-Owned: Visible, local leadership over program priorities.

Potential Challenges may include:

- Sustainability of Funding: Ongoing philanthropy or business buy-in is essential.
- Uneven Provider Participation: Smaller or home-based providers may end up being excluded due to being unregulated or not participating in the child care assistance program. Watertown will also have to vet all participants, inherently leaving a smaller pool of choice for families.
- Perceived Inequity: Families just over the eligibility line may feel excluded.
- Capacity to Administer: Even a small program requires back-end coordination, which may extend beyond just a part-time FTE.

Watertown could mitigate these challenges by emphasizing transparent eligibility rules, creating tiered scholarship levels, and building a broad base of funders who see this not as charity, but as a workforce strategy.

Cost Analysis of Program:

As with the Tri-Share model, the key factors that determine the long-term cost of a scholarship program depend on

- Current childcare costs,
- Number of children or families participating in the program, and
- How costs are split between the parents and the community fund.

We reported earlier that the average market rate for children aged five and under was \$206 per week or \$824 per month, assuming a typical four-week month. While childcare costs are the same as under the Tri-share model, the scholarship model differs in the number of children participating and in the division of costs between parents and the community fund. First, in this model, we anticipate that the program will support 15 children in its first year, compared to 12 under the Tri-Share model. However, we assume that the scholarship fund will add three additional children to the program every three years. Ultimately, this model would support 33 children during its twentieth year. The scholarship model also differs from Tri-Share in that the community fund would support 50% of parents’ childcare costs, and the parents’ employers would not be directly involved in paying for childcare. The fund would again be responsible for any additional costs associated with managing the fund and fundraising activities.

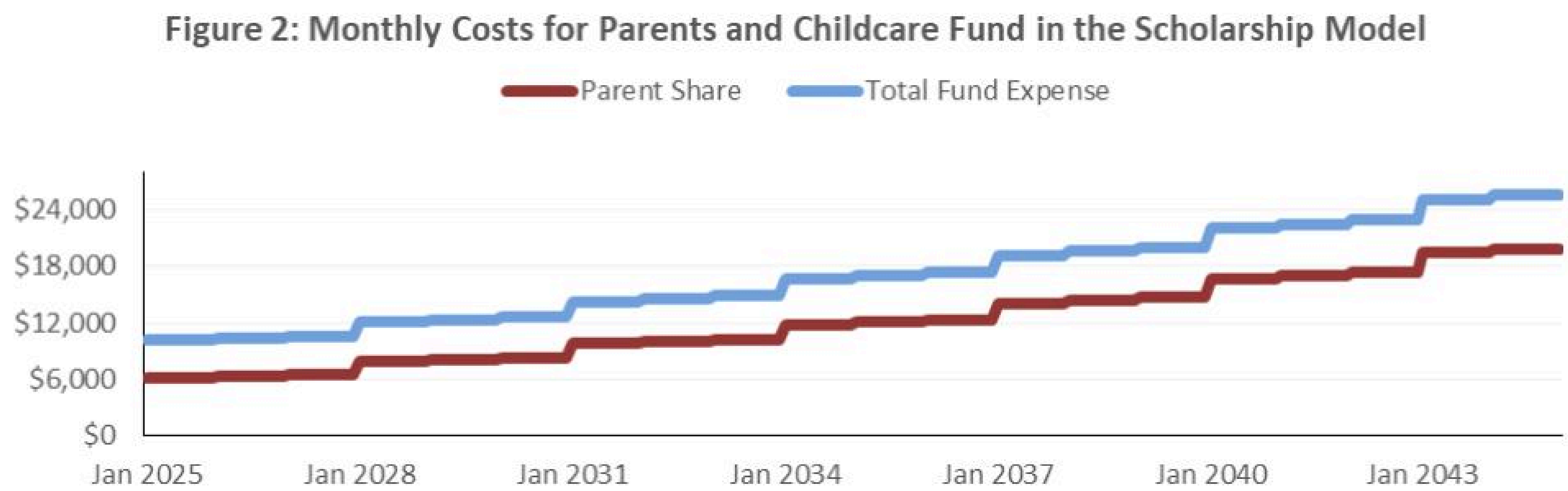
Table 3: Scholarship Financial Model	
Number of children in the first year	15
Number of new children every 3 years	3
Weekly cost per child	\$206
Monthly cost per child	\$824
Annual cost escalation rate	2%
Parent cost share	50%
Fund cost share	50%
Monthly management fee	\$4,000
Fundraising goal (Months of operating capital)	18
Number of community donors	600
Conor growth every two years	20
Business match percentage	50%
Business match cap	\$250,000
Annual investment return rate (%)	5%

Our financial model for the scholarship model also differs greatly from the Tri-Share model in terms of its fundraising mechanism. In this model, we envision a community-driven program where funds are raised through small-dollar donations and matching funds from local businesses or philanthropists. This model requires more frequent fundraising campaigns because the fund covers 50% of childcare costs, but the funding burden is spread over a large number of smaller donors.

The initial assumptions of the scholarship model are shown in Table 3. Foremost is the assumption that the initial fundraising campaign’s goal is to raise eighteen months’ worth of operating capital from 600 donors in the community with an average donation of \$305 (see Table 4 below for further details). These funds would be matched at a 50% rate, up to \$250,000, by local businesses or philanthropists. In this way, the local fund would be primarily supported by small donors, whose contributions would account for two-thirds of all dollars raised.

Cost Analysis of Program:

In this model also assume the fund incurs significantly higher management costs, estimated at \$4,000 per month in year one, primarily due to the need to coordinate community fundraising efforts every 18 to 24 months. In effect, we anticipate that managing the scholarship fund in this model would require a whole FTE.



Under this model, parents would again be responsible for 50% of their childcare costs. Parents' monthly costs would be \$412 per child per month, totaling \$6,180 across all 15 children, and would rise to \$600 per child per month in 2044. The fund's cost share, which includes the management fee, begins at \$10,180 per month (\$679 per child) and reaches \$25,634 in 2044 (\$777 per child). Table 4 provides a summary of the financial costs to parents and the community fund under the scholarship model. The final columns report the total anticipated expenditure from the community fund. In total, the fund would require slightly more than \$4 million over a 20-year period to support the program as envisioned here.

Table 5: Scholarship Model Fundraising Projections

Year	Number of Children	Fundraised from the Public	Matched from Funding Donors	Total Fundraising Dollars	Number of Donors	Average Public Gift Needed
2025	15	\$183,240	\$91,620	\$274,860	600	\$305
2026	15	\$0	\$0	\$0	600	\$305
2027	15	\$190,643	\$95,321	\$285,964	620	\$307
2028	18	\$0	\$0	\$0	620	\$307
2029	18	\$222,427	\$111,213	\$333,640	640	\$331
2030	18	\$0	\$0	\$0	640	\$348
2031	21	\$256,468	\$128,234	\$384,702	660	\$361
2032	21	\$0	\$0	\$0	660	\$389
2033	21	\$0	\$0	\$0	680	\$389
2034	24	\$298,754	\$149,377	\$448,131	680	\$439
2035	24	\$0	\$0	\$0	700	\$439
2036	24	\$310,824	\$155,412	\$466,236	700	\$442
2037	27	\$0	\$0	\$0	720	\$444
2038	27	\$352,161	\$176,081	\$528,242	720	\$463
2039	27	\$0	\$0	\$0	740	\$489
2040	30	\$396,331	\$198,166	\$594,497	740	\$497
2041	30	\$0	\$0	\$0	760	\$536
2042	30	\$0	\$0	\$0	760	\$536
2043	33	\$452,366	\$226,183	\$678,548	780	\$576
2044	33	\$0	\$0	\$0	780	\$580
Total		\$2,663,213	\$1,331,607	\$3,994,820	690	\$424

Table 4: Scholarship Model Financial Projections

Year	Number of Children	Childcare Cost (Parent Share)	Childcare Cost (Fund Share)	Management Costs	Total Fun Expenditure
2025	15	\$74,160	\$74,160	\$48,000	\$122,160
2026	15	\$75,643	\$75,643	\$48,960	\$124,603
2027	15	\$77,156	\$77,156	\$49,939	\$127,095
2028	18	\$94,439	\$94,439	\$50,938	\$145,377
2029	18	\$96,328	\$96,328	\$51,957	\$148,285
2030	18	\$98,254	\$98,254	\$52,996	\$151,250
2031	21	\$116,923	\$116,923	\$54,056	\$170,978
2032	21	\$119,261	\$119,261	\$55,137	\$174,398
2033	21	\$121,646	\$121,646	\$56,240	\$177,886
2034	24	\$141,805	\$141,805	\$57,364	\$199,169
2035	24	\$144,641	\$144,641	\$58,512	\$203,153
2036	24	\$147,534	\$147,534	\$59,682	\$207,216
2037	27	\$169,295	\$169,295	\$60,876	\$230,171
2038	27	\$172,681	\$172,681	\$62,093	\$234,774
2039	27	\$176,135	\$176,135	\$63,335	\$239,470
2040	30	\$199,619	\$199,619	\$64,602	\$264,221
2041	30	\$203,612	\$203,612	\$65,894	\$269,505
2042	30	\$207,684	\$207,684	\$67,212	\$274,895
2043	33	\$233,021	\$233,021	\$68,556	\$301,577
2044	33	\$237,682	\$237,682	\$69,927	\$307,609
Total		\$2,547,140	\$2,907,518	\$1,166,274	\$4,073,792

Program costs increase steadily over time as the program expands to support more children, and the need for additional fundraising also increases significantly over time. As we introduced above, our model assumes the community fund will begin with a goal to raise 18 months of operating capital. Table 5 shows that the fund would need to raise nearly \$274,860 in its first campaign to meet this need. It would be possible to do so if the average gift size from the 600 community donors were at least \$305. With this average gift size, the fund could raise \$183,240 from community members and an additional \$91,620 in matching funds from local businesses or philanthropists. Table 5 also shows that the fund would need to launch a new campaign roughly every two years to be ready to support program expansion and add new children to the program.

In total, our model indicates that a community fund in this scholarship model would need to raise nearly \$4 million over twenty years to achieve the impact envisioned here. This program would potentially serve 157 individual children and families over its twenty-year life, assuming the average child is supported for three years. The average family would save \$18,592 in childcare costs over the three years their child was supported by the program. This average annual savings of \$6,197 equates to 7% of the median family income for households with parents aged 25 to 34 in Codington County. This model would not specifically allow businesses to use childcare as a recruitment tool, but the community fund would likely help the community as a whole retain more young people over time.

Investment Strategy: Child Care Workforce Support Fund

This investment strategy is modeled after the Kentucky Income Exclusion Policy for Child Care Workers and the recent South Dakota House Bill 1132 in 2025. During the COVID-19 pandemic, Kentucky implemented an innovative model to address critical workforce shortages in the child care field, recognizing that child care is the “workforce behind the workforce.” Their approach offered a meaningful employment benefit by providing child care subsidies to all licensed child care workers, regardless of income. The model helped reopen closed classrooms, boost program enrollment, and re-engage qualified professionals in the field.¹³

South Dakota explored a similar idea during the 2025 Legislative Session with HB 1132, which would have made child care workers eligible for subsidies if they worked at least 30 hours per week and earned less than 300% of the Federal Poverty Level (FPL).¹⁴ While the Governor vetoed the bill, the policy concept remains sound and adaptable as a local investment opportunity for Watertown.

Watertown Adaptation Overview

This strategy proposes establishing a Watertown Child Care Workforce Support Fund, aimed at helping recruit and retain staff in licensed child care programs by offsetting their child care costs. The fund would be supported through pooled local investments from employers, the city, philanthropic partners, and other stakeholders rather than public state funds.

Key Features

With this type of program, you would look to implement local eligibility guidelines. Examples for Watertown could include: employees working 30+ hours/week in a licensed child care program and earning less than 300% FPL. Considering a flexible reimbursement model, the funds would be used to reimburse licensed providers directly for the care they provide to eligible children. For these providers, this could be an attractive recruitment and retention tool, bringing in new staff or retaining current employees who might otherwise leave for higher wages in other industries. The consideration needs to be made for a community hub with this model as well. The fund would be centrally managed by a designated community entity (e.g., United Way, Codington Connects, or another neutral partner), which would be responsible for processing applications, verifying eligibility, and making payments to providers. Finally, this could again be a scalable mode, starting with a lower number of children being served while slowly growing the model over time. This would allow Watertown to make any adjustments along the way and assess the needed demand.

¹³ Buffet Early Childhood Institute, Supporting Child Care Workers as Parents: How the Kentucky Subsidy Income Exclusion for Child Care Employees Helps Increase Access to Child Care, Policy Report (2024)

¹⁴ HB1132, Establish Provisions for Eligibility in the Child Care Assistance Program for Certain Child Care Employees (SD, 2025)

Implementation Considerations:

- Establishing a clear administrative structure and accountability measures
- Setting a cap on monthly reimbursement amounts
- Ensuring equity and transparency in eligibility and distribution
- Engaging providers early to ensure buy-in and logistical feasibility
- Defining parameters around eligibility (e.g., whether home-based providers can participate, work hour requirements, etc. This locally adapted workforce strategy offers a direct and immediate support mechanism for those working in the child care sector, while also strengthening the broader economy by enabling more families to access reliable care. Like other investment models under consideration, this strategy could begin small, with the potential to evolve into a sustainable, long-term workforce solution.

Pros for implementation:

- Direct Workforce Incentive: This would provide a concrete employment benefit that can help child care providers attract and retain staff, who are critical in a field known for low wages and high turnover.
- Local Control & Flexibility: Watertown can design the program to meet its unique needs, setting eligibility thresholds, reimbursement rates, and administrative structures that make sense for the community.
- Strengthens Child Care Infrastructure: By stabilizing the child care workforce, the strategy supports the reopening and expansion of classrooms, boosting the availability of care for families.
- Economic Impact: More child care workers mean more available child care slots, which helps parents across industries stay in or return to work, positively impacting the broader workforce.
- Adaptable & Scalable: The model can start small (pilot or tiered launch) and grow over time as more investment partners come to the table.
- Builds Community Investment: Engages local employers, philanthropy, and civic leaders in a shared solution, generating buy-in and ownership.

Cons for Implementation

- Requires Ongoing Fundraising/Investment: In order to maintain the program, annual fundraising will be necessary.
- Administrative Burden: Requires a neutral, capable organization to manage eligibility, payments, and reporting, which may create capacity strain for smaller nonprofits.
- Equity & Access Limitations: If funding is limited, not all eligible child care workers may be able to receive support, raising questions about prioritization and fairness.
- Limited Impact without Scale: A small or narrowly targeted fund may not have a significant impact on the workforce shortage unless it is scaled to meet demand.
- Potential Confusion with Other Subsidy Programs: If not clearly communicated, it could cause confusion among providers and families already navigating state subsidy systems.
- Risk of Setting a Precedent: Employers may expect community funds (rather than wage increases) to bear the burden of workforce support, unless paired with broader wage and compensation reform efforts. The community of Watertown could mitigate this risk by making certain workplace improvements a requirement or a goal for providers participating in the program.

Cost Analysis of the Workforce Support Program for Watertown:

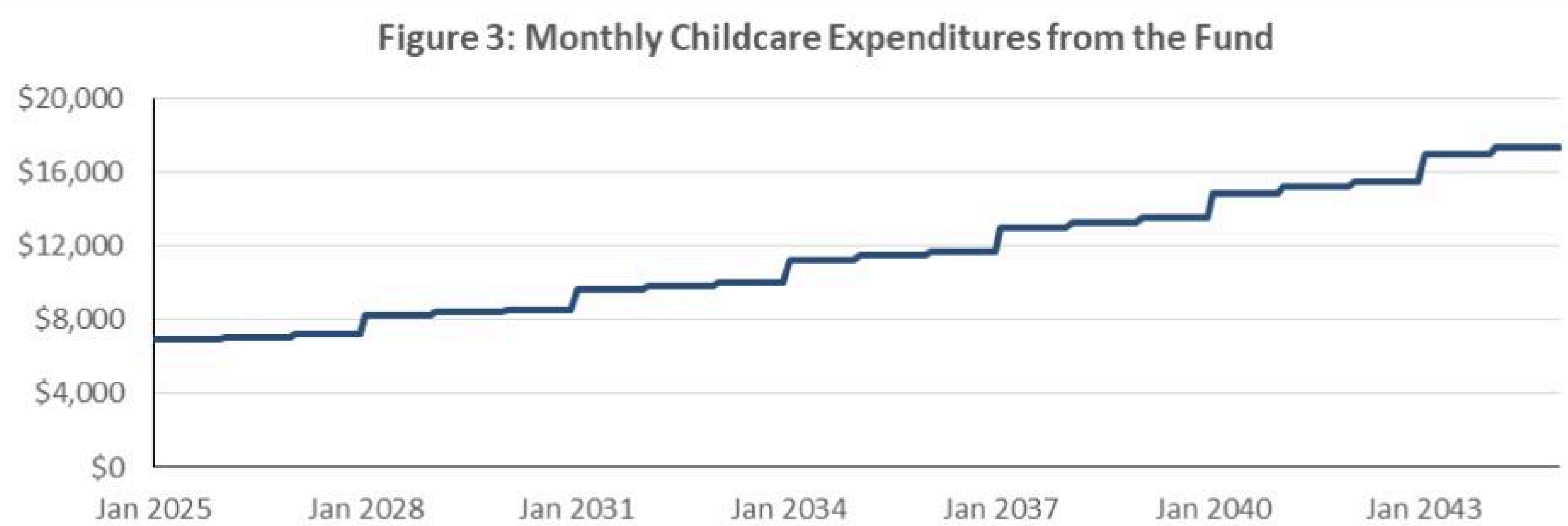
The workforce support model is distinct from the previous two models. Once again, the key factors that drive long-term costs include

- Current childcare costs,
- Number of children or families participating in the program, and
- How costs are split between the parents and the community fund.

Childcare rates are again assumed to be \$206 per week or \$824 per month, assuming a typical four-week month. In this case, however, the workforce support model is designed to support childcare for parents working in the childcare industry. The program is designed to cover 100% of childcare costs for these workers. Because the community fund will cover 100% of the costs, it is planned to be a smaller program, initially supporting only six children (i.e., six workers in the industry), and then expanding to include one more child (or worker) every three years. At the end of the twenty-year period, the program would support 12 children.

Table 6: Scholarship Financial Model

Number of children in first year	6
Number of new children every 3 years	1
Weekly cost per child	\$206
Monthly cost per child	\$824
Annual cost escalation rate	2%
Parent cost share	0%
Fund cost share	100%
Monthly management fee	\$2,000
Fundraising goal (months of operating capital)	\$250,000
Annual investment return rate (%)	5%



Our financial model for the scholarship model also differs significantly from the workforce model, reverting to a more traditional fundraising approach. We assume the community fund would initiate a campaign to raise \$250,000 and would launch subsequent campaigns as needed to maintain solvency. As with the Tri-Share model, the first campaign would support the fund for roughly five years, and subsequent campaigns would require to increase funds raised by \$10,000 every time a new campaign is launched.

Under this model, the fund would be responsible for 100% of childcare costs. Figure 3 shows that the fund’s expenditures, which include the management fee, would begin at \$6,944 per month (\$1,157 per child) and reach \$17,319 in 2044 (\$1,443 per child). Table 7 provides a summary of the financial costs to parents and the community fund under the scholarship model. The final columns report the total anticipated expenditure from the community fund and the frequency of fundraising needed to support the program. In total, the fund would need slightly more than \$2.8 million over 20 years to support the program as imagined here.

Table 7: Workforce Support Model Financial Projections

Year	Number of Children	Childcare Cost (Parent Share)	Childcare Cost (Fund Share)	Management Costs	Total Fun Expenditure	Fundraising Needed
2025	6	\$0	\$59,328	\$24,000	\$83,328	\$250,000
2026	6	\$0	\$60,515	\$24,480	\$84,995	\$0
2027	6	\$0	\$61,725	\$24,970	\$86,694	\$0
2028	7	\$0	\$73,453	\$25,469	\$98,922	\$0
2029	7	\$0	\$74,922	\$25,978	\$100,900	\$260,000
2030	7	\$0	\$76,420	\$26,498	\$102,918	\$0
2031	8	\$0	\$89,084	\$27,028	\$116,112	\$0
2032	8	\$0	\$90,866	\$27,568	\$118,434	\$270,000
2033	8	\$0	\$92,683	\$28,120	\$120,803	\$0
2034	9	\$0	\$106,354	\$28,682	\$135,036	\$0
2035	9	\$0	\$108,481	\$29,256	\$137,737	\$280,000
2036	9	\$0	\$110,650	\$29,841	\$140,491	\$0
2037	10	\$0	\$125,404	\$30,438	\$155,842	\$0
2038	10	\$0	\$127,912	\$31,047	\$158,958	\$290,000
2039	10	\$0	\$130,470	\$31,667	\$162,138	\$0
2040	11	\$0	\$146,387	\$32,301	\$178,688	\$300,000
2041	11	\$0	\$149,315	\$32,947	\$182,262	\$0
2042	11	\$0	\$152,301	\$33,606	\$185,907	\$310,000
2043	12	\$0	\$169,470	\$34,278	\$203,748	\$0
2044	12	\$0	\$172,859	\$34,963	\$207,823	\$320,000
Total		\$0	\$2,178,598	\$583,137	\$2,761,735	\$2,280,000

This program would potentially serve 59 children or childcare workers over a twenty-year period, assuming the average child is supported for three years. The average childcare worker would save \$36,925 in childcare costs over the three years their child was supported by the program. This represents an average annual savings of \$12,308 for childcare workers supported by the program.

Our analysis of wages for childcare workers in Watertown shows that typical wages for a full-time childcare worker ranged from \$26,800 to \$32,000, depending on experience.¹⁵ Consequently, the annual childcare benefit would be valued between 38% and 46% of a provider’s salary. This benefit would be extremely valuable to workers. It would help providers attract and retain them, which would also contribute to the industry’s expansion and provide additional childcare slots to the community.

The community fund should consider requiring participating childcare workers to sign agreements that would obligate them to remain employed in the industry for a specified period after they cease receiving support. A continuing employment requirement would ensure workers do not leave the sector immediately after benefitting from the fund’s support. Workers who leave the industry before completing their employment period would be required to repay all or a portion of the support they received. This model has been highly successful in the Build Dakota scholarship program, ensuring the program’s financial stability.

Another consideration of this strategy is that, although the direct number of children is significantly lower than in the other models, the impact extends beyond just the one child and one provider. By keeping more providers in the childcare industry, you are sustaining slots for many other parents throughout the Watertown community.

¹⁵ Wage data was gathered directly from childcare providers and cannot be shared due to confidentiality concerns.

Operationalizing these efforts:

Before any investment strategy is considered, it is recommended by KVG that the operationalization and the willingness within your community to fundraise are ready to be expected. First, establish that there is still a desire to activate an affordability investment plan. Start by revisiting some of the original Watertown leadership that initially showed interest, or survey your local businesses and large organizations. Watertown may also consider continuing to communicate with the public about the importance of early childhood education and the concerns surrounding the affordability of childcare.

If there is still a remaining interest to see this project come to fruition. Here are a few things to consider when you think to operationalize any of these models. For the fund itself, Watertown may want to consider creating a governance structure to develop rules of conduct and accountability systems for both providers and parents. There should also be a consideration of a fund distribution model. This could consist of different frameworks such as direct grants, reimbursements or a hybrid of the two. A compliance and misuse protocol would also be beneficial.

Having a plan prior to collecting funds will allow your leadership stakeholder group to understand the procedures and would also benefit conversations with future funders. Following the discussion of an operations plan, the leadership group should then discuss a clear fundraising strategy. This plan could include an initial framework, donor mapping and identification, as well as an initial donor outreach and communication plan.

Conclusion and Recommendations

We have presented three distinct investment strategies, each with slightly different funding and distribution options for the town of Watertown to consider. We understand that each investment strategy relies on local philanthropy and donations to a considerable degree. We recommend that the city of Watertown also consider other sustainable options to support future funding needs. Also consider diversifying where the funds may initially end up. Consider a quasi-endowment that you can start building on and use for both principal and interest when the project is ready to commence. Some options offered below may not be currently available under state law, but there is room for potential legislation or policy changes to make these a reality.

Other counties have created their own funds through locally dedicated revenue. To sustain these types of programs, other counties and communities around the US have developed local funding mechanisms for preschool or child care support. Some examples of this include:

- Voter-approved, local sales tax that would fund preschool in San Antonio.¹⁶
- In Philadelphia, a program was proposed by Mayor Kenney and passed by the City Council in 2016 to impose a local beverage tax to provide free quality preschool to three and four-year-olds.¹⁷
- The Board of County Commissioners in Mecklenburg County, NC, approved a three-quarters of a penny increase in the property tax rate to raise more than \$9 million for the opening of 33 new public pre-k classrooms, referred to as “MECK Pre-K.”¹⁸
- In Park City and Summit County, public/private dollars are used to fund their local child care scholarship program – specifically focused on low-income families.¹⁹

Another consideration that could be addressed outside of state legislation would be the implementation of an at-will donation. This could simply be the City establishing a platform for individuals to donate to a specific purpose and communicating that option through something like a water or other city bill.



Report produced by
KVG Consulting

¹⁶ Childrens Funding Project, San Antonio, TX's Keep Pre-K 4 SA A November 2020 Ballot Measure Case Study (2020)

¹⁷ City of Philadelphia Office of Children and Families, Quality Pre-K (2025)

¹⁸ NC Early Childhood Foundation, Mecklenburg County North Carolina, MECK Pre-K and Child Care Subsidy Support for Working Families (2021)

¹⁹ Park City Community Foundation, Growing Community Initiatives, Local Childcare Scholarships (2025)