



INTERIM REPORT / JUNE 30, 2025

NORTH CAROLINA TASK FORCE ON CHILD CARE & EARLY EDUCATION

Interim Report / June 30, 2025

As directed by Section C of Executive Order 10









June 30, 2025

Dear Governor Stein,

Thank you for your leadership in establishing the North Carolina Task Force on Child Care and Early Education and bringing a broad array of leaders in the field together. Your recognition of the essential role that child care plays in North Carolina's economic development and workforce vitality has reinforced the urgent need to identify solutions that will increase access to high-quality, affordable child care and early education in North Carolina.

Our state's child care system faces significant challenges associated with access, early childhood education workforce recruitment and retention, and affordability. Many of North Carolina's child care programs struggle to stay in business due to difficulty retaining teachers and staff. With the average cost of infant care for just one child reaching \$11,720 and surpassing the cost of in-state tuition at the University of North Carolina at Chapel Hill, high-quality child care is financially out of reach for many families.

The hurdles that keep families from accessing high-quality child care also hold our economy back. Over one third of respondents to a 2023 North Carolina Chamber Foundation survey indicated they had turned down a job opportunity, promotion, or job change because of child care challenges, and more than a quarter of respondents said these challenges caused them to leave the workforce altogether. A report published last year by the North Carolina Department of Commerce and NC Child found that as many as 31,000 working-age North Carolinians parenting young children were sidelined from our workforce in 2023. Had they been able to work, North Carolina could have produced up to \$13.3 billion in additional economic output in 2023.

But these challenges are not insurmountable. North Carolina's legacy of tackling big problems with public and private solutions positions our state to lead the way in child care and early education once again. With grit, collaboration, and a vision of a brighter future for children and families in mind, we can get there.

The enclosed report includes a summary of the Task Force's activities to date and preliminary recommendations that will serve as the foundation for discussion and planning for the remainder of 2025. These are just the first steps this Task Force will take to identify solutions to make child care more accessible, affordable, and sustainable in North Carolina. On behalf of the Task Force, we are honored to serve and continue our mission.

In partnership,

Rachel Hunt

Lieutenant Governor, North Carolina Jim Burgin

Senator, North Carolina District 12

James A. Burge



Governor Josh Stein announces formation of the North Carolina Task Force on Child Care and Early Education at Kate's Korner Learning Center in Durham, North Carolina on March 10, 2025.

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North Carolina's Child Care Landscape

The early childhood education system is vital to North Carolina's families, workforce, and economy.

Access to high-quality, affordable child care and early education supports children's development and school readiness, allows parents to remain in the workforce, and keeps businesses running.

North Carolina is experiencing a child care and early education crisis driven by limited access to care, high costs, and workforce shortages.

Estimates show that North Carolina's need for high-quality early childhood education exceeds availability.



Sources: ACS/Census Data, S0101 Age and Sex Table, 2023 ACS 1-year Estimates Subject Tables; NC Care and Early Learning Dashboard, April 2025.

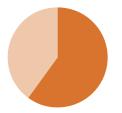
Barriers faced by North Carolina families include limited access to care and workforce shortages.



On average, there is only **one licensed child** care slot available for every five families who need one.

Access is particularly limited in rural areas and for infants and toddlers.

Source: Untapped Potential in NC, US Chamber of Commerce Foundation, 2024.



In 2024, **60%** of child care center directors and family child care owners/operators reported they were experiencing a staffing shortage.

Source: Early Childhood Education Workforce Survey from NAEYC, February 2024, North Carolina.

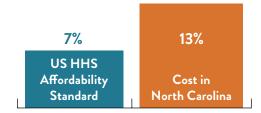
Child care is unaffordable for most families in the state.



The average annual cost of infant care in NC is \$11,720, **57% more per year** than the annual in-state tuition for a four-year public college (\$7,453).



The average annual cost of child care for two children is \$19,464, **25% more** than the average rent in NC (\$14,453).



The US Department of Health and Human Services affordability standard for child care is

7% of the median family household income.

In NC, it is **nearly double** that.

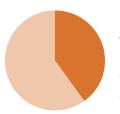
Source: Economic Policy Institute, Child care costs in the United States, North Carolina; Neilsberg, North Carolina Household Income: Trends, Analysis, and Key Eindings, March 2025

Early childhood education professionals are struggling to afford to stay in the profession.



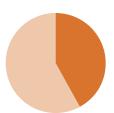
In 2023, the median starting salary for an early childhood teacher in NC was **\$14 per hour**, about half of the median hourly wage statewide.

Source: Early Years, "Working in Early Care and Education in North Carolina: 2023 Workforce Study," February 2024; BLS, May 2023 State Occupational Employment and Wage Estimates for NC



The average early childhood educator in NC would have to spend nearly **40%** of their earnings to put their own infant in child care.

Source: Economic Policy Institute, Child care costs in the United States, North Carolina



42% of teachers rely on public assistance to meet their basic needs.



Only **49%** of licensed child care centers offer health insurance benefits to their employees, and **43%** offer retirement benefits.

Source: Early Years, "Working in Early Care and Education in North Carolina: 2023 Workforce Study," February 2024

Early childhood educators in North Carolina reported that a child care program closed in their community within the last year.

Source: Early Childhood Education Workforce Survey from NAEYC, March 2025, North Carolina



Since the onset of the COVID-19 pandemic (January 2020), NC has experienced a net loss of almost **9%** of child care programs.

58% of NC early childhood educators reported that a child care program closed in their community within the last year.

Source: NC Care and Early Learning Dashboard, April 2025

Child Care Center Directors and Family Child Care Center Owners/Operators indicated...

Their program was under-enrolled over the last year	59%
They raised their tuition costs over the last year	46%
Their rent costs increased over the last year	35%

Source: Early Childhood Education Workforce Survey from NAEYC, March 2025, North Carolina



This crisis affects everyone.

35%

35% of parents who experienced disruptions to their employment in 2024 reported leaving the workforce due to issues with child care.

-\$5.65 B

Child care issues result in an estimated \$5.65 billion loss annually for NC's economy.

-\$1.36 B

Employee turnover and unplanned worker absences due to child care challenges cost NC an estimated \$1.36 billion in tax revenue annually.

Source: Untapped Potential in NC, US Chamber of Commerce Foundation, 2024





Executive Summary

In March 2025, North Carolina Governor Josh Stein created the North Carolina Task Force on Child Care and Early Education through Executive Order No. 10. Since then, the Task Force has prioritized identifying and studying solutions that expand access to affordable, high-quality child care and early education across North Carolina. This report includes findings and recommendations developed by members of the newly created North Carolina Task Force on Child Care and Early Education in its first three months of work.

Task Force meetings held in April, May, and June 2025 included deep exploration of several key components of child care access challenges in North Carolina defined in Executive Order No. 10, including finance and funding in child care and early education, child care and early education workforce compensation and support, and child care access for public sector workers.

In the June 2025 meeting, Task Force members held a work session to evaluate frequently shared ideas and potential recommendations that surfaced over the course of their first three months of work. They selected the following recommendations:

- 1. Set a statewide child care subsidy reimbursement rate floor
- 2. Develop approaches to offer non-salary benefits to child care professionals
- 3. Explore partnerships with the University of North Carolina System, North Carolina Community Colleges, and K-12 public school systems to increase access to child care for public employees and students
- 4. Explore subsidized or free child care for child care teachers
- Link existing workforce compensation and support programs for early childhood professionals into a cohesive set of supports
- 6. Explore the creation of a child care endowment to fund child care needs

Task Force co-chair Senator Jim Burgin holds a poster from his office asking the Task Force to come up with "big ideas" at the Task Force's first meeting on April 7, 2025. Photo Credit: Liz Bell, Education NC.

Task Force Background

In March 2025, Governor Josh Stein issued <u>Executive Order No. 10</u>, creating the North Carolina Task Force on Child Care and Early Education, the first Task Force initiated by his administration.

The Task Force is chaired by North Carolina Lieutenant Governor Rachel Hunt and Senator Jim Burgin (NC-12) and administered by the North Carolina Department of Commerce. Its members include: bipartisan members of the North Carolina General Assembly; representatives of various state agencies, including the North Carolina Department of Health and Human Service's Division of Child Development and Early Education; leaders of regional, state, and national nonprofit and philanthropic organizations that champion early care and education; executives of private sector companies and public sector agencies that employ thousands of North Carolinians, including many who rely on child care access; child care operators; and parents and grandparents of young children who have navigated the child care system.

Task Force members were sworn in by North Carolina Supreme Court Justice Paul Newby in April 2025. To date, the Task Force has held three meetings in person in Raleigh, NC. These meetings were open to the public and streamed live to the North Carolina Department of Commerce's YouTube channel, where recordings remain available. Based on the terms of Executive Order No. 10, the Task Force will operate from March 10, 2025 to March 9, 2027, unless otherwise amended.

Executive Order No. 10 named the following duties for the Task Force on Child Care and Early Education:

- Examine the role of financing in North Carolina's early childhood education system, including strengths and gaps in the current funding model and system infrastructure;
- Review and evaluate policy solutions that strengthen
 the supply of accessible, affordable, safe, and highquality child care and early education by reviewing and
 establishing strategies to recruit and retain a strong child
 care and early education workforce, expand child care
 supply for the public sector workforce, and maximize
 compensation, opportunities, and additional supports for
 early childhood education providers and teachers;
- Identify opportunities to maximize the impact of existing funding and develop recommendations to direct new public and private investment towards gaps in system infrastructure, especially engaging with the business community;

- Submit a preliminary report describing Task Force activities and recommendations to the Office of the Governor by June 30, 2025 and a year-end report by December 31, 2025 and annually thereafter by December 31 of each year; and
- Provide advice and guidance on any other matter the Governor refers to the Task Force.

Executive Order No. 10 also listed several responsibilities for state agencies. It tasked the North Carolina Department of Commerce with working with businesses, philanthropic organizations, and communities to encourage employers to provide child care-related benefits and support to their workers, and with exploring economic development programs that incentivize employers to provide child care or family-friendly policies. It also required the North Carolina Department of Health and Human Services to review and revise its multi-year implementation plan to strengthen the Child Care Subsidy Program. This involves transitioning from the current market rate funding model to a new, alternative funding model that reflects the actual cost of care and continuing to support the North Carolina Child Care Commission in its efforts to update rules for child care providers.

Recommendations included in this report are part of the North Carolina Task Force on Child Care and Early Education's efforts to carry out assigned responsibilities from Executive Order No. 10. The recommendations are supported by data and shaped by the perspectives of Task Force members and experts in various components of child care and early education. These experts have generously presented to the Task Force and the public in Task Force meetings.



Dan Rockaway, President of North Carolina Licensed Child Care Association evaluates and selects recommendations in a work session on June 2, 2025. Photo credit: Margaret Seets, Office of the Lieutenant Governor

Our Approach

GUIDING PRINCIPLES

The North Carolina Task Force on Child Care and Early Education operates under three guiding principles:

Continuous progress: Task Force members are encouraged to continue to make impact and take steps toward expanding access to child care on an ongoing basis.

Solutions-based approach: Significant challenges and resource scarcity affect North Carolina's child care and early education system, but Task Force members are advised to remain focused on opportunities for improvement.

Considering both public and private solutions: Executive Order No. 10 reminds the Task Force to study, evaluate, and recommend both public and private solutions, ensuring a broad spectrum of opportunities to broaden and strengthen access to affordable, high-quality child care in our state are considered.

MEETINGS

The Task Force has completed three in-person meetings, which have been held monthly since the group was appointed in March 2025. Meetings have explored topics named in Executive Order No. 10, including North Carolina's overall supply of child care, challenges and opportunities related to recruiting and retaining our state's early care and education workforce, improving child care access for the public sector workforce, and financing and funding child care and early education in our state. Task Force meetings have featured insight from leaders, innovators, and educators in early care and education, government, policy, nonprofit organizations, faith communities, businesses, and more.

WORK GROUPS

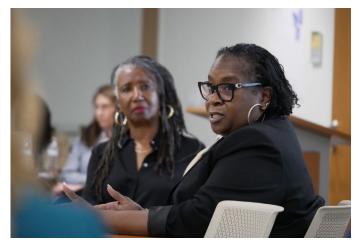
Beginning in July 2025, the Task Force will conduct work in three work groups, which track along the responsibilities outlined in Executive Order No. 10: the Child Care & Early Education Workforce Compensation & Supports Work Group; the Child Care & Early Education for Public Sector Workers Work Group; and the Child Care & Early Education Finance & Funding Work Group. Work groups will lead further exploration of challenges, opportunities, and possible solutions, including considering successful, scalable innovations in their respective issue areas. Each group will share their findings with the larger Task Force for broader discussion and consideration.

KEY DEFINITIONS

Children are typically cared for in regulated child care settings, such as licensed child care centers or licensed Family Child Care Homes (FCCH), or in unregulated settings that are sometimes referred to as "informal child care" or "friend, family, and neighbor" care. These may include a nanny or family member caring for a child. In North Carolina, people who care for more than two unrelated children for more than four hours per day are required by state law to have a license from the NCDHHS Division of Child Development and Early Education (DCDEE), with some exceptions.

Results from a 2022 Bipartisan Policy Center national survey suggest that the term "friend, family, and neighbor care" may be a misnomer, as neighbors and friends represent a small fraction of informal child care. Among those relying on informal child care options, parents care for the child in the majority of cases (68%), followed by care provided by relatives (25%), non-relative friends or neighbors (4%), and nannies (3%). Most parents who rely on relatives rely primarily on grandparents (80%), followed by aunts (12%).

- Child Care Center: <u>Defined by NCDHHS DCDEE</u> as
 a child care arrangement where, at any one time, there
 are three or more preschool-age children or nine or more
 school age children receiving child care. This also includes
 a center located in a residence, where the licensed
 capacity is six through twelve children, or up to fifteen
 school-age children.
- Family Child Care Home (FCCH): <u>Defined by</u>
 <u>NCDHHS DCDEE</u> as a child care arrangement located
 in a residence where, at any one time, more than two
 children, but less than nine children, receive child care.
- Family, Friend, and Neighbor Care (FFN): <u>Defined by</u>
 <u>the Child Care Resource Center</u> as regular, non-parental
 care that is based on an existing relationship with the
 child's family either as a relative, a friend, a neighbor
 or other unrelated adult. It is sometimes referred to
 as "informal care," "kith and kin care," "relative care,"
 "license-exempt care," or "unlicensed care."



Debra Derr (left), Director of Government Affairs with the NC Chamber, leads a panel with Kate Goodwin (right) of Kate's Korner Learning Center in Durham at the Task Force's first meeting on April 7, 2025 Photo credit: Liz Bell, Education NC.





Task Force members discuss, evaluate, and select recommendations in a work session in the Task Force's third meeting on June 2, 2025. Photo credit: Margaret Seets, Office of the Lieutenant Governor.

Key Findings

The first three meetings of the North Carolina Task Force on Child Care and Early Education were held in person in April, May, and June of 2025. The meetings focused heavily on four areas of focus from Executive Order No. 10 and explored gaps, challenges, opportunities, and successful innovations in each area.

FUNDING & FINANCE OF CHILD CARE & EARLY EDUCATION IN NORTH CAROLINA

Child care business margins are thin.

At the June 2025 Task Force meeting, experts from NC Child shared preliminary findings from their Child Care Provider Budget Study, in which respondents described difficulty breaking even month to month, let alone earning a profit. The study identified profit margins from three child care providers' budgets, ranging from -0.07% at a family child care home in Cleveland County to 14% at a for-profit child care center in Mecklenburg County. Both were well below what is considered a healthy profit margin across industries.

Child care operators face pressure to keep tuition lower than the true cost of care.

While the high cost of child care creates a burden for many families, it rarely covers the true cost of providing high-quality child care and early education. Costs incurred by child care operators include staff wages, payroll taxes, food, educational supplies, playground maintenance and equipment, rent or mortgage payments, utilities, cleaning services and supplies, liability insurance, and more.

The cost of providing high-quality care is even higher for child care programs that provide specialized care like developmental day services.

The June 2025 meeting of the Task Force featured a panel of current and former child care operators who discussed the financial challenges of the child care business, including Task Force member and North Carolina Representative Sarah Crawford, CEO of TLC. Representative Crawford discussed the challenges working parents with children who have disabilities face in trying to find care options. Representative Crawford shared that TLC had been offering 5-star developmental day services since 2007, providing care for children with and without disabilities. The organization's blend of funding enabled it to provide specialized care, including occupational therapy, physical therapy, speech therapy, nursing, and equipment. Loss of some public funding and staff turnover made delivery of developmental day services financially unsustainable, leading TLC to the difficult decision to cease operation of developmental day services.

Rural child care providers often experience additional financial strain.

Annette Samuels, owner and operator of Phenomenal Kids, a four-star licensed family child care home in Kings Mountain, joined a panel of child care providers at the June 2025 Task Force meeting to share her passion for educating young children. As an operator of a licensed family child care home, Samuels serves children whose families qualify for a child care subsidy, but child care subsidy reimbursements are not as high as tuition rates paid by private-pay families. Samuels also explained that her family child care business misses out on additional subsidy reimbursement revenue because of its physical location, noting that if her family child care home were based a few miles away in a neighboring county, she would be reimbursed hundreds more dollars per month per child due to the current market rate methodology for subsidy reimbursement.

Higher child care subsidy reimbursement rates could help child care operators stay in business.

Various experts, presenters, and panelists at Task Force meetings emphasized that child care subsidy reimbursement rates need to be closer to the true cost of child care for child care businesses to break even. Higher rates would enable child care operators to serve more children and improve pay for teachers. Halee Hartley, founder and operator of Kid Cove, a group of five-star child care centers in Watauga County, shared on a panel at the June 2025 Task Force meeting that a statewide floor for child care subsidy reimbursement rates would help stabilize her child care business. Importantly, such stabilization would enable her to continue expanding her business, offer better pay to recruit and retain teachers, and create new, high-demand child care slots.

Child care operators are struggling to adjust after losing Child Care Stabilization Grant funds.

Funded by American Rescue Plan Act dollars during the COVID-19 pandemic and continued by the North Carolina General Assembly, North Carolina Child Care Stabilization Grants supported child care workforce retention by bolstering salaries of child care teachers and staff across the state

from October 2021 – March 2025. Although Child Care Stabilization Grants were only able to help elevate early care and education salaries by modest amounts, which still often remained less than starting wages in other industries like retail, the recent end of these grants has created additional workforce retention challenges for child care operators.

CHILD CARE SUPPLY IN NORTH CAROLINA

Despite the high demand for child care across the state, workforce challenges limit the overall supply of child care.

Research from the U.S. Chamber of Commerce
Foundation, NC Chamber, and NC Child's 2024 Untapped
Potential in NC report quantified the gap between child
care supply and demand in North Carolina: licensed child
care programs for infants and toddlers only have capacity
to serve 18.7% of children in that age range. But as a
state with one of the highest rates of working mothers
of young children, demand for infant and toddler care is
high in North Carolina. Many licensed child care providers
serve fewer children than they are licensed to serve due to
staffing shortages or frequent turnover. Growing the early
care and education workforce would help more licensed
child care providers serve up to their licensed capacity and
create more slots for child care for families in need.

The effects of North Carolina's child care shortage ripple throughout our economy.

In the April 2025 Task Force meeting, Task Force member Candace Witherspoon, Director of the Division of Child Development and Early Education at the North Carolina Department of Health and Human Services, shared that North Carolina is classified as a child care desert where about five families compete for each licensed child care slot in the state. The <u>Untapped Potential in NC</u> report showed the limited supply of child care adversely affects labor force participation: 35% of parent respondents experienced employment disruptions or reported leaving the workforce in the previous year as a direct result of child care challenges. Without an adequate child care supply, employers in various industries will likely continue to have trouble filling available roles.

Family Child Care Homes (FCCHs) face unique challenges and dwindling numbers in North Carolina.

Licensed family child care homes offer many working families child care and early education at preferred hours and settings, but they represent a smaller proportion of overall child care and early education in North Carolina and have faced higher rates of closure than center-based child

care providers in our state compared to the national average. According to a 2024 fact sheet from Child Care Aware of America, family child care homes delivered less than 3% of all licensed child care slots and accounted for only about 21% of all licensed child care programs in North Carolina. This contrasts significantly with the national average, where family child care homes represent over 50% of all licensed child care programs. According to the North Carolina Early Childhood Foundation's 2024 Impact Report, 85% of all child care business closures between February 2020 and June 2024 were licensed family child care homes.

Courtney Alexander, Program Director at MDC, shared a presentation at the Task Force's April meeting about home-based child care (HBCC), including licensed family child care homes (FCCH) and unlicensed family, friend, and neighbor care (FFNC) in North Carolina. MDC runs the Home-Based Child Care Initiative, which includes a community of practice for HBCC networks, as well as Haven, a leadership development program for HBCC providers. She shared the unique challenges faced by HBCC providers, including financial barriers, difficulty navigating regulations, and obstacles to providing nutritious food when many members live in food deserts. Alexander also shared that HBCC options are important to families with specific cultural preferences or care needs during nontraditional hours, like second- or third-shift care.

CHILD CARE ACCESS FOR PUBLIC SECTOR WORKERS

Child care benefits are a highly effective talent acquisition tool for employers.

High-quality child care benefits can help public sector employers recruit and retain talent. At the May 2025 Task Force meeting, Blowing Rock Town Manager Shane Fox shared that the <u>Town of Blowing Rock</u> operates an on-site child care center for employees and subsidizes the cost of employees' child care tuition at the center. While the Town spends about \$100,000 per year of its operating budget on these child care benefits, they have reduced costly turnover in various departments including sanitation and public safety and have helped the Town recruit a Chief of Police. The Town of Blowing Rock is now fully staffed with no open positions, a success Fox credits to the town's child care benefits.

Strategic partnerships can also help support child care opportunities for public sector employees.

At the May 2025 Task Force meeting, Reverend Jackie Whitfield of All Saints Episcopal Church and Rachel Grossman-Zack, Director of Lockhart Child Development Center, shared the story of a community-driven effort to redevelop underutilized church space into a child care center. The center now serves children of Cabarrus County Government employees in addition to private-pay families from the broader community. Reverend Whitfield described a partnership involving the church, the county government, and other community leaders. The partnership took stock of what each participating organization could contribute and pooled their resources to develop new child care initiatives, some of which are provided specifically to public sector employees.

TRAINING & RETAINING THE EARLY CARE & EDUCATION WORKFORCE

Staff retention is the greatest challenge facing child care and early education providers.

The North Carolina Task Force on Child Care and Early Education has frequently heard from experts and child care providers about the impact of workforce challenges on the supply of child care in North Carolina, including how low wages and lack of access to non-salary benefits worsen these challenges. According to a 2024 report by Early Years, median early childhood teacher pay in North Carolina is about \$14 per hour. However, this estimate was developed when many licensed child care operators received North Carolina Child Care Stabilization Grant funds that helped elevate teacher pay. Child care operators frequently lose staff to retailers such as Walmart, Costco, and Verizon, which offer higher starting hourly wages and benefits with no post-secondary education or licensure requirements for entry-level roles, often with less stressful work environments.

North Carolina is home to successful, ready-to-scale early care and education workforce programs.

In the May 2025 Task Force meeting, experts from the North Carolina Department of Health and Human Services' Division of Child Development and Early Education, Early Years, Partnership for Children of Wayne County, and North Carolina Business Committee for Education's Building Bright Futures program shared information and impact data on existing programs to help train and sustain North Carolina talent in early care and education. The





Task Force members discuss challenges and opportunities to support the child care and early education workforce at the Task Force's second meeting on May 5, 2025. Photo Credit: Katie Dukes, EducationNC.

TEACH Early Childhood North Carolina Scholarship Program and Child Care WAGE\$ education-based salary supplements are part of North Carolina's legacy of leadership in the field of early education, with WAGE\$ supplements fully funded by Smart Start in 67 counties. Programs like Building Bright Futures pre-apprenticeships and apprenticeships and Child Care Academies' career training have been developed recently to help attract and support workers to early childhood education careers.

Recommendations

The North Carolina Task Force on Child Care and Early Education delivers the following recommendations for the governor, state agencies of the executive branch, the North Carolina General Assembly, and North Carolina's child care system. They align with key issue areas identified in Executive Order No. 10, including child care finance and funding, compensation and supports for the child care and early education workforce, and child care supports for the public sector. The Task Force's work groups will dive deeper into these recommendations in coming months.

RECOMMENDATION 1: Set a statewide child care subsidy reimbursement rate floor.

Child care subsidies reimburse child care providers for services they deliver to low-income families, helping low-income parents stay in the workforce and strengthening our economy.

In North Carolina, the amount child care providers are reimbursed for the care and education they deliver to children in the subsidy program is based on their local market rate. The North Carolina General Assembly sets the state's child care subsidy reimbursement rates at the 75th percentile of the market rate in each county. According to the North Carolina Department of Health and Human Services, North Carolina has more than 3,000 different child care subsidy reimbursement rates, with different rates paid to child care providers depending on county, age of the child (0 to 12), setting (center or home-based), and star rating of the program.

High-quality child care is expensive to provide in both rural and urban counties, but market rates and child care subsidy reimbursement rates are lower in rural counties. As a result, many child care programs in low-income and rural counties receive thousands of dollars less per month than neighboring urban counties, even though they provide similarly high-quality care and early learning experiences. For example, according to NC Child, a five-star child care provider in Gaston County could receive \$446 less in child care subsidy reimbursement per infant than a Mecklenburg County provider of the same quality rating.

A statewide floor for child care subsidy reimbursement rates would set a minimum rate based on the average market rate for child care tuition in North Carolina. All counties that currently receive reimbursement at rates below the floor amount would receive the floor amount instead, while counties that currently receive a rate above the floor would continue to receive child care subsidy reimbursement at their current rates. This would help ensure that child

care programs in all 100 North Carolina counties receive a minimum child care subsidy reimbursement rate without penalizing counties that already receive subsidy reimbursement at rates at or above the floor.

Further, a statewide rate floor would help sustain child care programs that are currently struggling to break even, including enabling providers to pay higher wages to teachers and staff and increasing benefits. Without an increase in subsidy reimbursement rates for child care centers in rural communities, many are at risk of closing, especially as statefunded stabilization grants ended on March 31, 2025.

The Task Force could also explore how a subsidy rate floor could improve financial sustainability for developmental day programs, which provide high-quality child care and early education to children with special needs.

RECOMMENDATION 2: Develop approaches to offer non-salary benefits to child care professionals.

A lack of access to non-salary benefits makes talent recruitment and retention challenging in early care and education and makes careers in the industry unsustainable for early care and education professionals. According to a recent survey by Early Years, only 49% of licensed child care centers offered health insurance benefits to employees and just 43% offered retirement benefits.

The Task Force will explore whether early childhood education professionals could be made eligible to purchase health insurance benefits through the North Carolina State Health Plan. The <u>State Health Plan</u> currently covers nearly 750,000 teachers, state employees, retirees, and their dependents. In years past, the North Carolina General Assembly has also extended eligibility for State Health Plan coverage to workers who provide other essential services, like <u>firefighters</u>, rescue squad workers, and members of the North Carolina National Guard.

The Task Force will also identify opportunities to connect North Carolina's early care and education workforce with other non-salary benefits, including paid leave, retirement savings options, loan forgiveness, mental health support, and substitute teacher pools.

North Carolina programs have sought to help connect the early care and education workforce with non-salary benefits in the past. For example, Smart Start has provided financial support to child care providers in various counties over the years to offset health insurance costs as an employer-sponsored benefit.

Several states and the District of Columbia have introduced their own programs that bolster talent recruitment and retention within the child care and early education industry by connecting child care professionals with various benefits. The District of Columbia created HealthCare4ChildCare, which covers the cost of monthly health insurance premiums for employees of licensed D.C. child care programs who enroll in the state's Affordable Care Act marketplace or in a participating employer's health plan. The health care premium costs are covered by D.C.'s Early Childhood Educator Pay Equity Fund, a first-in-thenation program aimed at achieving pay parity between early childhood staff and their K-12 counterparts. It was created through the FY2022 Budget Support Emergency Amendment Act of 2021 as a special fund of the D.C. Government and is administered by the Office of the State Superintendent of Education.

California and Vermont have expanded benefits for child care professionals beyond health insurance. <u>California</u> included \$80 million in the state's FY2024 budget for the nation's first retirement fund for child care providers and \$100 million for a health care fund for unionized homebased providers. <u>Vermont</u> created a student loan debt relief program in 2021 that provides up to \$4,000 annually in debt relief for early childhood educators who earned an early childhood related degree.

In 2024, Tennessee also <u>commissioned a study</u> of the current benefits landscape for child care workers in the state, including looking at the feasibility of expanding financial support to early childhood educators.

RECOMMENDATION 3: Explore partnerships with the University of North Carolina system, North Carolina Community Colleges, and K-12 school systems to increase access to child care for public employees and students at public institutions of higher education.

The Task Force will explore a range of options for increasing access to child care for public employees, including supporting subsidized child care for some or all public sector employees and increasing access to child care centers near large public sector employers. This may include partnering with the University of North Carolina System, the North Carolina Community College System (NCCCS), and K-12 school systems, all major public employers whose workforces need access to child care.

These partnerships could support training for prospective child care employees by setting up child care centers on school campuses, especially on North Carolina Community College campuses. North Carolina Lieutenant Governor Rachel Hunt's Future-Ready North Carolina policy agenda proposes increasing funding and incentives to support parents who are pursuing post-secondary education or a credential and hands-on training for incoming child care and early education talent.

North Carolina is already advancing goals to improve child care access for state government employees. In his 2025-2027 state budget proposal, <u>Governor Stein</u> recommended \$1 million to renovate up to five state buildings to house licensed child care centers that would serve children of state employees. The Task Force can expand on these efforts by considering ways to leverage underutilized state or local public property for future child care spaces and how to prioritize improved child care access for workers in state divisions with high job vacancy rates.

Several states operate programs that help connect public sector workers with child care. New Mexico provides free child care to a broad population of families, including many public sector workers. In 2022, New Mexico voters approved a constitutional amendment that allocates 1.25% of the year-end market value of the state's Land Grant Permanent Fund to early childhood education and K-12 public education. The roughly \$150 million fund enables the state to provide free child care for all families with household incomes less than \$124,000—which covers a significant number of public sector employees. Workforce participation among young mothers has risen far ahead of the national average since the program began.

Georgia has prioritized child care availability for public sector employees by partnering with Georgia State University (GSU), a public university located near Georgia's state capitol. An on-site child development center at GSU offers enrollment only to children of GSU students, staff, faculty, and alumni, as well as Georgia state employees.

RECOMMENDATION 4: Explore subsidized or free child care for child care teachers.

Child care as an employer benefit is a significant talent recruitment and retention tool across industries and could be particularly valuable to help grow and sustain the child care workforce.

In North Carolina, leaders could explore making child care workers eligible for child care subsidies. North Carolina House Bill 800 proposes a \$20 million appropriation in nonrecurring funds over the 2025-2027 biennium to establish a pilot program to provide automatic child care subsidy eligibility for all full-time child care teachers who are employed by a licensed child care program in North Carolina. North Carolina's child care subsidy program would need significant additional investment to serve North Carolina's child care and early education workforce as well as working families who are already on the subsidy waitlist.

Models based on this concept have succeeded in other states. In October 2022, Kentucky became the first state to provide child care subsidies to all employees of licensed and certified child care programs, regardless of role. Kentucky's program helps early childhood education professionals access child care, a high-demand non-salary benefit, to attract and retain talented staff in the early childhood education sector, even as wages remain low. Kentucky has indicated that the program delivers many benefits: attracting high-quality child care providers back to the field; providing a benefit that supplements income; recruiting and retaining working parents in the early childhood education field; and returning revenue back to child care providers that previously offered discounted tuition to employees and lost revenue as a result.

lowa (H2658) and Rhode Island (H7725) also extended previously created pilot programs that provide child care to child care professionals in the 2024 legislative session. New Hampshire (S404), Indiana (S2), and Utah (H461) created new programs to provide child care to child care staff, and Washington (H2124) expanded its program to serve a greater number of child care professionals. In 2024, Arkansas expanded their Child Care Assistance Program to all child care staff working at least 10 hours per week at a licensed program.

Some programming in North Carolina aligns with this recommendation, including the North Carolina Tri-Share Pilot Program. Under the Tri-Share model of child care tuition cost sharing, workers pay for one third of the cost of their child care tuition, their employer pays one third, and state funding covers the remaining third, significantly reducing the cost of child care for qualifying workers. Some of the first employers to enroll in North Carolina's Tri-Share Child Care Pilot were child care providers, several of which already provided other forms of child care benefits to their workers to help reduce staff turnover and compensate for low wages. By choosing a worker benefit that costs them only a third of the value of a worker's child care tuition for each participating child, participating child care providers can save funds that can be used on other expenses, like teacher wages and rent.

In March 2025, the North Carolina Child Care Resource and Referral Council (NC CCR&R Council) in collaboration with NC Child published results from a Child <u>Care Provider Survey</u> to assess whether a benefit program similar to the one recently implemented in Kentucky would be useful to North Carolina child care providers. More than 80% of programs surveyed said free child care for employees would help them hire needed staff and retain current staff, and 77% said the benefit would help them keep their program open. The survey estimated that 7,300 staff in licensed child care programs and 10,500 children under the age of six could benefit from such a program. Additionally, they noted that 61% of child care programs already offer discounted child care to employees at an investment of \$31 million per year, despite their thin business margins.

RECOMMENDATION 5: Link existing workforce compensation and support programs for early childhood professionals into a cohesive set of supports.

Early childhood education professionals are typically paid low, hourly wages with few benefits, <u>earning an average of \$14 per hour</u> in North Carolina. Child care businesses frequently lose teachers and staff to entry-level roles in other industries like retail with higher hourly wages and often with benefits such as health insurance, paid time off, and retirement savings options. The early childhood education industry also loses teachers and staff to opportunities in K-12 public schools, which offers purposeful work for higher wages and access to benefits like insurance under the state health plan and the state pension program.

This turnover creates frequent and lasting staffing shortages that limit the number of children child care providers can serve, even if they have physical space available.

North Carolina has a legacy of innovation in early childhood education, including several programs that aim to improve recruitment and retention of a strong early childhood education workforce. These include:

- The <u>Child Care WAGE\$ Program</u> (education-based salary supplements)
- The <u>TEACH North Carolina Early Childhood Scholarship</u>

 Program
- The <u>Building Bright Futures</u> (pre-apprenticeship and apprenticeship program)
- <u>Child Care Academies</u> (training programs for prospective early childhood teachers)
- The <u>Family Child Care Home Pilot Program</u> (a statewide system of support for family child care providers)

The impact of these early childhood education workforce training and compensation support programs could be improved by ensuring the reach of each program extends statewide. TEACH Early Childhood Scholarships are available in all counties (with awardees in 93 counties in 2023-24), while Child Care WAGE\$ education-based salary supplements are available in 64 counties, Building Bright Futures pre-apprenticeships and apprenticeships have served workers and child care providers in 70 counties, and Child Care Academies have operated in about 10 counties to date.

The 2025 North Carolina House budget proposed to appropriate \$1.47 million in non-recurring funds in the first year of the biennium to expand Child Care Academies in 12 counties to grow the early childhood workforce, with a required 25% match from Smart Start. Both the North Carolina House and Senate proposed appropriating funds in both years of the biennium for a Family Child Care Home Direct Support Pilot, though at different amounts: \$3.5 million and \$3 million, respectively.

North Carolina's system of workforce compensation and support programs could also become more effective by ensuring all early childhood education professionals can access them easily and sequentially along the career pathway, beginning with education and credential attainment and continuing through apprenticeship, wage enhancement, and career development. For example, Child Care Academies, which typically last 2 to 3 weeks,

SUPPORTS IN PLACE FOR NORTH CAROLINA'S EARLY CHILD CARE WORKFORCE

TEACH Early Childhood North Carolina Scholarship Program provides a variety of <u>educational scholarships</u> to early care professionals in partnership with the North Carolina Community Colleges and 16 universities offering degrees in early childhood education and development. From August 2023-August 2024, there were <u>2,329</u> beneficiaries of TEACH. In addition to scholarships, TEACH participants can also receive bonuses upon completing their education. When people get additional education through TEACH scholarships, they are more likely to feel appreciated and valued at work, identifying as an early childhood professional, and earn higher wages—all of which contribute to long-term retention.

The Child Care WAGE\$ Program is an evidence-informed program that provides education-based salary supplements to low-paid teachers, directors, and family child care providers working with children between the ages of birth to 5 in 64 participating counties. The program promotes staff retention by distributing the annual bonus in two equal installments every six months of employment. In FY23-24, there were 4,079 participants and the average six-month supplement was \$1,281. The turnover rate for those participating in the WAGE\$ program is far lower than those who do not participate. There is a similar program called Infant-Toddler Educator AWARD\$ that provides education-based salary supplements for infant-toddler educators, but unlike WAGE\$ is available in all 100 NC counties.

The Building Bright Futures (BBF) Program supports and scales registered pre-apprenticeships and apprenticeships in early childhood education throughout NC. The program offers supports like technical assistance, wage support, wraparound services, mentorship, and access to a network of industry professionals to participants of an ECE apprenticeship program. BBF began in January 2023 as an initiative through the North Carolina Business Committee for Education. At the start of the initiative, there were only a handful of apprentices in a few NC counties. By April 2025, there were over 500 active or completed pre-apprentices and apprentices in NC in 70 counties across the state.

Child Care Academies began as a pilot in January 2024 and have since been piloted in at least 9 additional counties through Smart Start Local Partnerships. The goal of academies is to prepare individuals who have not previously worked in early childhood education to be able to work in a licensed child care program in a few weeks. Participants receive training on health and safety topics like CPR, medication administration, and communicable diseases, training on content such as classroom management, child development, challenging behaviors, abuse and trauma, as well as criminal background checks – all free of charge to the participant and to the child care provider. Local Partnerships have implemented Academies in different ways, ranging from 2 weeks to 6 weeks.

Family Child Care Home (FCCH) Pilot provides financial assistance through subsidy supplements to sustain existing in-home child care programs across the state and to support professional development efforts. The General Assembly appropriated \$1.5 million to facilitate business support services for family child care homes in an attempt to preserve the roughly 1,100 operating in the state and increase the number of licensed home-based child care providers, especially in communities with the least amount of high-quality child care available.

could refer graduates directly into pre-apprenticeships or apprenticeships through the Building Bright Futures program, pending availability in the same county.

The Task Force may also evaluate ways to fund North Carolina's workforce compensation and support programs in an evolving federal and state funding environment. Programs like Child Care Academies, Building Bright Futures, and the Family Child Care Home Pilot receive temporary federal funding through the Preschool Development Grant Birth through Five Program (PDG). The PDG is the only federal funding stream dedicated to building state-level capacity for early childhood education systems, but because of competitive award processes, North Carolina is not guaranteed to receive PDG dollars in the future. President Trump's 2025 budget proposal also eliminates the PDG program, putting these programs at risk at a time when the state is already experiencing significant challenges recruiting and retaining high-quality early childhood education professionals.

The Task Force has also identified a need for small business training and support for aspiring and current child care operators. Potential strategies include exploring specific services for child care business owners at Small Business
Technology Development Centers on North Carolina community college campuses and revisiting and expanding Self-Help's Child Care Business Basics program (which has not previously reached all 100 counties). The Task Force could also explore ways that customized supports could be offered to fit the needs of family child care homes (FCCHs), which may help expand the supply of child care in communities across the state, especially in rural areas. FCCHs often face unique operational challenges and accounted for 85% of child care provider closures in North Carolina between 2020 and 2024.

Specific needs of licensed FCCH providers are addressed through several state services, which could be expanded. The North Carolina Department of Health and Human Services' Division of Child Development and Early Education currently uses <u>PDG funding</u> to operate programs that support FCCH providers, including Elevate FCCH, a family child care home subsidy pilot, as well as the <u>Collaborative Model for Family Child Care Homes Quality and Engagement</u>.

RECOMMENDATION 6: Explore the creation of a child care endowment to fund child care needs.

A child care endowment leverages public and/or private dollars to set up an investment fund, the annual interest of which can be used for state child care needs. While an endowment can be created with solely public or private dollars, this tool functions best as a public-private partnership that utilizes matching grants to ensure dollars stretch further. North Carolina does not currently have a child care endowment to help meet child care needs.

Child care endowments in Nebraska and Connecticut offer promising examples. Nebraska's Sixpence program was founded in 2006 with \$20 million in philanthropy dollars from the Nebraska Children and Families Foundation and \$40 million from the state's Educational Lands and Trust Fund. Each year, Nebraska's Department of Education issues grants to locally controlled, high-quality home- or center-based early learning programs that are affiliated with a local school district. Communities must match the grant amount with their own investment. Grant awards vary based on the annual return from the investment fund, which is managed by a private investment advisory group. Earnings from the investment fund are deposited into the Early Childhood Education Endowment Cash Fund.

Connecticut Governor Ned Lamont signed a suite of child care-related bills into law on June 10, 2025 (Senate Bill 1, House Bill 5003, and House Bill 7288). Senate Bill 1 establishes the Early Childhood Education Endowment fund which will start on July 1, 2025, and draw up to \$300 million from surplus general funds. The fund will cover the cost of child care until Kindergarten for families earning less than \$100,000 per year. It will also ensure child care expenses are capped at <u>no more than 7% of annual household income</u> for families earning more than \$100,000 per year. The law permits the fund to spend up to 8% of released funds on administrative costs and \$300,000 for a health care subsidy pilot program. The remaining funds may support a wide range of expansion and programmatic costs related to increasing provider payment rates and supporting child care providers, among others. Notably, at least 35 % of any new child care spaces that are added as a result of spending from the Early Childhood Education Endowment fund must be for infants and toddlers. The law allows for surplus funds to be added to the fund at the end of each fiscal year if the state's Budget Reserve Fund stays above 18% of the annual budgetary need.

Montana's legislature passed HB 924 and Governor Greg Gianforte signed it into law on June 20, 2025. This legislation creates a sustainable endowment with a \$10 million initial investment and leveraging surplus revenues to make long-term, strategic investments in early childhood. It establishes the Montana Early Childhood Account within Montana's Growth and Opportunities Trust, and the early childhood account can be used for eligible purposes, such as early care and education provider support and workforce development, quality improvement initiatives, affordability initiatives, innovation initiatives, and emergency assistance and disaster relief programs for impacted child care facilities. A child care endowment could help address the current child care crisis in North Carolina by providing an ongoing source of supplemental child care funding for the state and maximizing child care funding through investment from private companies, philanthropy, and communities in partnership with the state.

Conclusion

The preliminary recommendations outlined in this report represent some of the first steps the North Carolina Task Force on Child Care and Early Education will take toward identifying solutions that improve access to affordable, high-quality child care and early education in North Carolina. These recommendations offer pathways to explore key issues affecting North Carolina's child care landscape, including finance and funding challenges and opportunities, compensation and supports for our state's child care and early education workforce, and child care access for public sector workers.

In coming months, the Task Force will dive deeper into the recommendations outlined in this report, and work groups will examine additional challenges, opportunities, and innovations affecting our state's child care and early education landscape. These include additional funding sources and programs like NC Pre-K and Head Start, addressing child care needs of military families, and identifying strategies to improve access to before- and after-school care for older children, among other topics. The Task Force will also produce an additional report and set of recommendations to submit to Governor Josh Stein by the end of December 2025.

Task Force Co-Chair Lt. Governor Hunt and Madhu Vulimiri, Senior Advisor of Health and Families Policy for the Office of Governor Josh Stein, discuss possible recommendations for early education financing at the Task Force's third meeting on June 2, 2025. Photo Credit: Margaret Seets, Office of the Lieutenant Governor



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