

## Strengthening Child Care and Early Education for Working Families

### Recommendation

Invests \$745.2 million in a multifaceted approach to strengthen North Carolina's economy by investing in child care and early education workforce, sustainability, and access while providing a child care tax credit to families. These investments provide early childhood education for young children, while allowing parents to work and businesses to hire for the jobs they need to fill. Investments help the state partner with the business community to implement solutions to this economy-wide issue facing families and employers. This budget addresses the fiscal cliff in child care as federal funds expire and fortifies access to child care for low-income and rural communities by continuing essential compensation grants and setting a statewide subsidy rate floor. The budget also addresses critical needs in NC Pre-K, a highly effective program, by fully funding reimbursement rates to continue serving the same number of children. Funds will also help recruit and retain early childhood educators by providing competitive wages, plus help for early childhood teachers afford child care for their own children.

**Table 1: Allocation of Funds to Support Child Care and Early Education**

	Agency	Recurring	Nonrecurring
<b>Child Care and Early Education Workforce</b>			
Child Care Stabilization Grants	DHHS		\$200,000,000
Child Care Subsidy Rate Increase	DHHS	\$128,500,000	
Child Care WAGE\$	DHHS	\$26,000,000	
Smart Start	DHHS	\$10,000,000	
Workforce Recruitment	DHHS	\$1,250,000	
<b>Sub Total</b>		<b>\$165,750,000</b>	<b>\$200,000,000</b>
<b>Child Care and Early Education Sustainability</b>			
NC Pre-K and Child Care Enhancement Grants	DHHS		\$50,000,000
Program Evaluation Funds	NCCCS		\$100,000
Employee-Friendly Benefits Study	Commerce		\$100,000
Early Childhood Workforce Data System	DHHS	\$500,000	
<b>Sub Total</b>		<b>\$500,000</b>	<b>\$50,200,000</b>
<b>Child Care and Early Education Access</b>			
NC Pre-K Reimbursement Rates	DHHS	\$197,000,000	
Wrap-Around Summer Care and Learning	DHHS		\$24,400,000
Employer Child Care Match Pilot	Commerce	\$24,150,000	
Early Education Provider Grant Program	DHHS		\$25,000,000
Tri-Share Pilot Expansion and Evaluation	DHHS		\$400,000
<b>Sub Total</b>		<b>\$221,150,000</b>	<b>\$49,800,000</b>
<b>Totals for Recurring and Nonrecurring</b>		<b>\$387,400,000</b>	<b>\$300,000,000</b>
<b>Tax Credits</b>			
Child Care Tax Credit		\$57,800,000	
<b>Grand Total</b>			<b>\$745,200,000</b>

## Statement of Need

- Infant child care costs an average of \$10,596 per year (\$883 per month) in North Carolina.<sup>1</sup> Such high costs limit access and contribute to 45% of parents of young children declining or leaving training<sup>2</sup> and 34% of mothers and 20% of fathers leaving the workforce.<sup>3</sup> These downstream impacts cost the North Carolina economy \$3.5 billion each year.<sup>4</sup>
- Research finds that child care benefits provide returns of up to 425% of their cost to companies, and benefits pay for themselves if employers retain as few as 1% of employees.<sup>5</sup>
- Over 25% of North Carolina's 2,717 child care centers closed between 2016 and 2021, while the supply of home-based programs decreased by 41%, from 1,723 to 1,015.<sup>6</sup> The state's age 0-5 population fell only 0.4% during the same period.<sup>7</sup> Another 1,778 programs serving 155,539 children are expected to close due to the impending "child care fiscal cliff" unless they receive additional investment.<sup>8</sup>
- NC's early childhood teachers earn on average \$13 per hour, less than many retail and hospitality jobs.<sup>9</sup>
- Over 3,400 children aged 5 and under currently sit on the child care subsidy waitlist due to insufficient funding.
- NC Pre-K participants experience increased literacy, math, and socio-emotional skills at kindergarten entry and sustain these gains throughout elementary school.<sup>10</sup> Yet, state funding for the program's almost 30,000 slots supports less than half the full cost to operate. Providers cite this underfunding as one reason for either not opening new slots or even leaving the program.<sup>11</sup> Since March 2020, there has been a net loss of 48 NC Pre-K sites.

## Recommendation Detail

### Child Care and Early Education Workforce

- **Child Care Stabilization Grants:** Helps North Carolina child care centers stay open and recruit and retain qualified staff by providing \$200 million nonrecurring in critical compensation grants that support the workforce when federal support runs out on July 1, 2024. The grants help early care and learning programs provide better wages and benefits to teachers and promote equity for all—children, parents, and teachers. These funds extend these grants through the 2024-25 fiscal year and supplement recurring child care subsidy rate floor investments.
- **Child Care Subsidy Rate Increase:** Provides \$128.5 million to create a statewide rate floor that will increase child care subsidy reimbursement rates in rural and lower wealth communities. Subsidy levels are currently based on local market rates that represent what parents can afford

<sup>1</sup> [Child Care Services Association](#). "2021-2022 North Carolina Infant-Toddler Child Care Landscape Study"

<sup>2</sup> [North Carolina Early Childhood Foundation](#). "Child Care & Economic Recovery Across North Carolina During Covid-19"

<sup>3</sup> [McKinsey & Company](#). "The childcare conundrum: How can companies ease working parents' return to the office?"

<sup>4</sup> [Ready Nation](#). "\$122 Billion: The Growing, Annual Cost of the Infant-Toddler Child Care Crisis"

<sup>5</sup> [Boston Consulting Group](#): "Childcare Benefits More Than Pay for Themselves at US Companies"

<sup>6</sup> [Child Care Services Association](#). "2021-2022 North Carolina Infant-Toddler Child Care Landscape Study"

<sup>7</sup> [NC OSBM](#)

<sup>8</sup> [The Century Foundation](#). "Children in North Carolina Set to Lose Child Care Due to Child Care Cliff"

<sup>9</sup> [U.S. Bureau of Labor Statistics](#). Occupational Employment and Wage Statistics

<sup>10</sup> "Impact [of North Carolina's Early Childhood Programs and Policies on Educational Outcomes in Elementary School](#)"

<sup>11</sup> NIEER. Barriers to Expansion of NC Pre-K: Problems and Potential Solutions

rather than what it costs to keep programs operating and to provide high quality care and competitive teacher salaries.

- **Child Care WAGE\$ Statewide Expansion:** Attracts and retains highly qualified staff to essential early childhood programs by providing \$26 million in educational attainment-based salary supplements to 4,000 additional teachers across the state. WAGE\$ supplements increase as recipients achieve higher education levels, so early childhood teachers are incentivized to gain skills and stay in the profession.
- **Smart Start:** Invests \$10 million in Smart Start to expand access to high-quality early childhood education and a continuum of evidence-based services. Smart Start increases access and quality of early care and education for young children and families statewide, especially those in under-resourced communities, and promotes early childhood workforce development. Smart Start also partners with businesses to strengthen community support for children and families.
- **Workforce Recruitment:** Invests \$1.25 million to help NC's Division of Child Development and Early Education grow and train North Carolina's child care and early education workforce by implementing recruitment strategies and professional development. Services include coaching, technical assistance, degree attainment, apprenticeships, and licensure support.

#### Child Care and Early Education Sustainability

- **NC Pre-K and Child Care Enhancement Grants:** Prevents closures and helps create new early childhood education opportunities by providing \$50 million nonrecurring in start-up and capital grants for NC Pre-K and child care centers across the state. Grants are available to licensed child care centers to increase capacity, strengthen quality, and promote compliance with state licensing standards. The state received over \$700 million in applications for the current grant program, which was funded with \$20 million nonrecurring in SL 2021-180.
- **Program Evaluation Funds:** Provides \$100,000 nonrecurring to the NC Community College system office to evaluate the effectiveness of the Child Care Grant Program, which was appropriated \$1.2 million in recurring funds in SL2023-134. The evaluation will assess the program's effectiveness and propose adjustments that would support more North Carolina parents seeking community college education.
- **Study Employee-Friendly Benefits:** Provides \$100,000 nonrecurring to inventory employee and family-friendly benefits offered by North Carolina employers, including the expected per employee cost of providing the benefit. In addition, the study should include the viability of providing enhanced economic development incentives to grant recipients who provide certain employee and family-friendly benefits.
- **Early Childhood Workforce Data System:** Provides \$500,000 in ongoing operations and maintenance for the real-time early childhood workforce data system. This system supports building the pipeline of early childhood educators by improving data collection and quality, improving research and evaluation, and providing information to help implement and scale effective programs and strategies.

#### Child Care and Early Education Access

- **NC Pre-K Reimbursement Rates:** Invests \$197 million to raise NC Pre-K slot reimbursement rates in all settings to cover the full cost of care and raise the administrative rate from 4% to 10%. By providing adequate resources to recruit and retain qualified teachers at competitive salaries, these funds address a fundamental barrier to expanding this nationally recognized model for early childhood education.

- **Wrap-Around Summer Care and Learning:** Provides \$24.4 million nonrecurring in grants to over 800 NC Pre-K Summer Learning Programs providing essential child care coverage for parents and enriching learning opportunities for children after they complete NC Pre-K but before they begin kindergarten.
- **Employer Child Care Match Pilot:** Partners with the business community to increase child care access by providing \$24.15 million to match business contributions to eligible employees' Dependent Care Flexible Spending Accounts (DCFSAs). This pilot program will contribute a state match up to \$2,500 to eligible participants' DCFSAs. These pre-tax funds can be used to pay for eligible dependent care services including child care, Pre-K, and after school programs. A portion of these funds shall be retained to evaluate the pilot.
- **Early Education Provider Grant Program:** Expands child care capacity for all North Carolinians by incentivizing child care providers to enter and remain in the workforce. This \$25 million grant program will enable free or reduced cost care for the children of the child care workforce and fund an evaluation of the program.
- **Tri-Share Child Care Pilot Expansion:** Adds a fourth region to the state's Tri-Share pilot program and funds an evaluation of the pilot. Tri-Share provides affordable access to child care and incentivizes business participation by sharing the cost of child care among employers, families, and the state.
- **Refundable Child & Dependent Care Tax Credit:** Reduces the burden of child care costs by providing a refundable child and dependent care tax credit worth up to \$600 for the average family of four. Since this credit is refundable, it helps North Carolina parents with child care costs, even if the full value of the credit is higher than their state income tax bill.

## Expected Impact

- Helps prevent the closure of as many as 1,778 North Carolina child care centers serving 155,539 children that research finds may close without stabilization support.
- Secures child care for approximately 50,000 children per year by creating a statewide rate floor starting in July 2024. About 3,500 child care sites in over 75% of NC counties will be able to raise salaries with the child care subsidy rate floor that better reflects the true cost of care.
- Provides additional education-based Child Care WAGE\$ compensation increases to 4,000 child care teachers across all 100 counties.
- Provides affordable care for child care providers, helping 2,200 providers enter and remain in the workforce to care for more than 20,000 children.
- Matches business' DCFSAs contributions to make child care more affordable for over 10,000 families across the state.
- Strengthens the NC Pre-K program and teacher workforce by reimbursing the full cost of care in all public school and child care center settings, and helps 7,500 families access NC Pre-K Summer Learning Programs after their children graduate from NC Pre-K.
- Propels North Carolina to become a leader in child care policy by finding what works through better data collection and evaluation. This includes studying how businesses support child care and other benefits and how the state can support and incentivize this in the future.
- Supports early education and kindergarten readiness by providing tax relief to over 215,000 working- and middle-class families to help them afford high-quality child care.