ADDRESSING NORTH CAROLINA'S CHILD CARE CRISIS:

Eleven Strategies to Expand Supply & Support for Working Families

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NC Chamber Foundation

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Why Child Care?

The NC Chamber Foundation study of North Carolina's child care crisis and potential strategies to expand the supply of accessible, affordable, high-quality child care options for North Carolinians with young children is driven by two major interests:

1. **Facilitate work and increase labor force participation in North Carolina to increase economic activity and growth.**
2. **Develop a strong, reliable future workforce, including future generations of leaders.**

With only 55 available workers for every 100 open jobs, North Carolina has a severe worker shortage. The insufficient supply of child care in the state is contributing to North Carolina's workforce problem. In the NC Chamber Foundation's statewide survey of North Carolina voters in May of 2023, more than one in four said they left the workforce because they could not find affordable child care. As employees leave the workforce and face their own financial consequences, employers face significant replacement costs, estimated at about one-fifth of an employee's salary.

The costs resulting from a lack of accessible, affordable child care do not just harm employers and families, but also North Carolina's economy. Insufficient child care availability is costing North Carolina $5.65 billion in lost economic activity each year, according to "Untapped Potential in NC," a report issued by the U.S. Chamber of Commerce Foundation in partnership with the NC Chamber Foundation and NC Child. Whether due to lost tax revenue ($1.36 billion) or the increased costs of employee turnover ($2.68 billion) and absenteeism ($1.61 billion), the child care gap in North Carolina is not only a barrier to parents' ability to participate in the labor force, but also a hindrance to the state's potential for growth and success.

Expanding the supply of accessible, affordable, high-quality child care in the state will help North Carolinians with young children join or return to the workforce and boost economic activity and growth.

Additionally, long-running research shows that young children who have access to high-quality early care and learning opportunities experience lasting gains in both IQ and social-emotional skills, resulting in improved school readiness and outcomes, higher wages, lower rates of incarceration, and healthier lives. The strength and stability of North Carolina's future workforce depends on ensuring that children and families who need it are able to access high-quality child care that fosters healthy development.

Because a vast majority of children's brain development occurs before age five (when they would typically enter school), their experiences and environment during those years set the foundation for the rest of their lives. Exposure to positive experiences and adult interactions (talking, reading, singing, and playing), especially "serve-and-return" interactions, builds a solid foundation for developing attention, cognition, memory, social-emotional, language, literacy, and sensory motor skills that will help them reach their potential. On the other hand, negative experiences and adult interactions, prolonged stress, or even the absence of responsive relationships with caregivers during early childhood is shown to disrupt healthy brain development, and may have long-lasting negative impacts on physical, mental, and emotional health.

Working North Carolinians with young children need accessible, affordable, high-quality child care that promotes healthy brain development and positive long-term outcomes. And for young children who may be exposed to prolonged stress or adverse childhood experiences (ACEs) due to poverty or other factors, high-quality child care can prevent or reverse damaging effects and help mitigate long-term negative outcomes by providing the stable, caring, interactive relationships with adults that children need to succeed and thrive.

Looking for Solutions

Most states across America are dealing with a similar child care crisis. In seeking workable, employer-focused solutions for consideration for implementation in North Carolina, the NC Chamber Foundation

- Examined 28 states similar to North Carolina in population growth and governance to see what policy changes or investments they have made in recent years to address their own child care challenges. (See Appendix A.)
- Analyzed the recommendations of eight relevant North Carolina organizations.
- Explored actions North Carolina leaders, officials, and local communities have already taken to try to shore up the state's current supply of high-quality child care, expand supply to meet demand, and make care more affordable for more North Carolina families with young children.

SOLUTIONS FROM 28 TARGETED STATES

The most common employer-focused policies aimed at expanding the supply of accessible, affordable, high-quality child care in the 28 targeted states examined were employer child care tax credits (12 states – see Appendix B). The second most common strategy among these states was the use of federal and/or state government funding to provide heavily subsidized child care for employees in licensed, registered, or otherwise regulated child care programs to grow the child care workforce and thereby expand supply of services (eight states – see Appendix C).

Another strategy that was repeated relatively often among the examined states involved government funding for employer-focused, capacity-building grants (six states – see Appendix D). And because property availability and costs are a major child care cost driver and barrier to expansion of accessible, affordable, high-quality child care, along with labor, actions taken in examined states in this policy area were also included in this study. Each of these strategies is examined in greater detail later in this report.

Most common employer-focused solutions among 28 targeted states (ranked by frequency):

1. **Employer child care tax credits**
2. **Heavily subsidized child care for child care employees**
3. **Employer-focused capacity-building grants**

SOLUTIONS FROM NC ORGANIZATIONS

In addition to examining policies and investments in 28 states with similar population-growth trends and governance, this research examines what eight North Carolina organizations have recommended in recent years as solutions to the state's child care shortage. Organizations examined include the following:

- NC Child
- NC Early Childhood Foundation
- Care-and-Learning (CandL) Coalition, led by NC Child, NC Early Childhood Foundation, and Black Child Development Institute – Charlotte
- NC Early Education Coalition
- NC Licensed Child Care Association
- MDC – NC Home-based Child Care Initiative
- NC Partnership for Children (Smart Start)
- John Locke Foundation

Of 13 proposals or recommendations from these organizations to help address North Carolina's child care supply challenges, the most common was to increase reimbursement rates for child care providers that serve low-income, working families who qualify for child care subsidies (five of eight organizations). North Carolina's current rate-setting methodology for the federal Child Care Assistance Program (CCAP), more commonly known as the "child care subsidies" program, is based on a market survey of tuition and fees rather than actual costs, which results in major geographic inequities among counties, effectively penalizing low-income and rural markets.

The second most common was to modify North Carolina's Quality Rating Improvement System (QRIS) for licensed child care (four of eight organizations). While 45 states have a QRIS for child care, research is still unclear whether benefits of these systems outweigh costs in their current form. Proponents of child care "deregulation" point to workforce education and training requirements and staff-child ratios, both central to North Carolina's QRIS, as regulations that make child care services unaffordable for many families. Additionally, some state advocacy groups assert that the vast majority of parents are either not aware of QRIS "star ratings" or do not use them as an indicator of trust. Groups representing family child care homes (FCCHs) in the state have said that the QRIS is inequitable because it is more difficult for them to earn the "rated license" required to serve low-income, working families who qualify for child care subsidies.

Most common proposals or recommendations from relevant NC organizations (ranked by frequency):

1. **Increase reimbursement rates for licensed child care providers serving low-income working families who quality for child care subsidies.**
2. **Reform North Carolina's Quality Rating Improvement System (QRIS).**

NORTH CAROLINA SOLUTIONS – ACTIONS TAKEN TO DATE

Lastly, the report explores what actions North Carolina leaders, officials, and communities have already taken to try to shore up the current supply of high-quality child care, expand supply to meet demand, and make care more affordable for more families. North Carolina has already taken a number of steps in the last four years to either preserve the state's current child care supply or try to increase both the child care talent pool and the number of licensed centers and FCCHs that need a qualified child care workforce to expand services for families. (See Appendix E.)

North Carolina has already taken actions widely known as "stabilization grants" funded primarily by federal one-time, pandemic-relief funding. Through federal and state appropriations, the Division of Child Development and Early Education in the NC Department of Health and Human Services (NCDHHS-DCDEE) has distributed more than $1.16 billion in stabilization grants to licensed child care programs statewide since October 2021, with nearly $570 million reserved for "compensation" (bonuses, base pay increases, or benefits) for child care employees. The number of licensed child care "sites" decreased by 5.1 percent during the same time period, despite the infusion of funding.

Other actions already taken in North Carolina to shore up or expand child care supply are innovative, borrowing still relatively new models or pilots from other states or trying novel strategies. Three examples of recent child care innovations in North Carolina include the following:

- "Tri-Share Child Care Pilot Program," a public-private partnership to share the cost of child care for working families equally between North Carolina employers, eligible employees, and the State of North Carolina – first modeled by Michigan and managed in North Carolina by the NC Partnership for Children (NCPC) and Catapult, a third-party administrator.
- "EarlyEd Flex Plex," a model originally designed by a Minnesota firm that envisions cutting costs and enabling high-quality care by having multiple small programs under one roof with shared indoor and outdoor space and administrative support, and opening programs to multiple ages of children. (Fundraising is ongoing to construct a building.)
- "Child Care Academies" in Buncombe, Cabarrus, Catawba, Wayne, Davidson, Davie, Johnston, Rowan, Stanly, and Wayne counties, which prepare participants to be "early childhood educators" in a licensed child care program in two to three weeks, free of charge, saving future child care employees and programs hundreds of dollars in fees for required criminal background checks and training, and producing academy graduates ready to work on day one. In addition to required health-and-safety training, such as CPR and medication administration, content includes classroom management, child development, challenging behaviors, abuse and trauma, and more.

Data is not readily available to evaluate the progress or success of these innovative initiatives, or many of the other actions taken by North Carolina since 2021, to help address the state's child care crisis. (See Appendix E.) For example, NCDHHS-DCDEE distributed one-time "Expansion and Access Grants" for child care in 2023, with $20 million in federal funding appropriated by the NC General Assembly. Grant recipients were required to report their expenses to state officials, however data is not publicly available, as of December 2024, to illuminate how these funds were invested and whether they were effective in expanding the supply of child care in communities across the state.

Similarly, in 2023, state legislators appropriated $1.5 million to facilitate business support services for FCCHs 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. Family child care homes are crucial for expanding the supply of infant care or providing care during atypical work shifts. An RFA administered by NCDHHS-DCDEE was open through the end of February of 2024, but there are no reports publicly available on the selection of a service provider, services-rollout plan, regions targeted for FCCHS expansion, or progress toward the objectives.

Evaluating the effectiveness of initiatives already undertaken to expand the supply of high-quality child care in North Carolina through data-collection, analysis, and interpretation should be a key component of efforts to alleviate the child care crisis. The economic and social impacts of a lack of accessible, affordable, high-quality child care coupled with limited federal and state resources underscore the importance of transparency and ensuring that funding initiatives, in particular, generate positive returns on investment and pass a cost-benefits analysis.

Solving the 'Crisis behind the Crisis' Comes First

Solving a service supply shortage requires optimizing staff. North Carolina will not be able to overcome its child care-supply crisis without efficiently developing a qualified child care workforce, attracting them to the work and keeping them in the field.

Child care employees are often called "the workforce behind the workforce" because they are essential for other working-age adults with young children to have jobs, careers, and generally participate in North Carolina's overall labor force. Similarly, the child care staffing crisis could be called "the crisis behind the crisis" because it is the primary barrier to expanding accessible, affordable, high-quality child care in North Carolina.

Further, many ideas, innovations, and examples to help eliminate insufficient child care as a barrier to work – such as partnerships to create on- or near-site child care, capacity-building grant programs, emergency backup child care services, and substitute pools – will require qualified employees to shift from existing child care programs in the early childhood ecosystem if there is not an adequate talent pool. Without effective, robust child care workforce development, implementation of many proposed initiatives to address supply shortages will exacerbate costly turnover in existing high-quality programs. In 2023, the statewide separation rate among full-time teachers and assistant teachers in licensed child care programs was 38 percent, according to a workforce study from the Child Care Services Association.

CHILD CARE STAFFING CHALLENGES AND SOLUTIONS

Ask any child care program owner/operator or administrator/director what their top challenge is and they will tell you that it is recruiting and retaining qualified staff. Child care staffing challenges are preventing high-quality child care programs from expanding or even operating to their maximum licensed capacity, leaving empty classrooms or slots while programs maintain long waiting lists and families experience work disruptions.

In a new 20-minute documentary called "Take Care," Carolyn Slade, a licensed child care center director in Rocky Mount, explained the challenge simply and clearly:

"If you have teachers, that determines your enrollment. If you don't have enough staff, then you have to start turning children around and telling them we're at our max, we're at our capacity, we can't have any more children enrolled. We have 100 children enrolled, but the building itself capacity-wise will hold 180 children."

– Carolyn Slade, Director, St. Stephens Loving Daycare Center

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Data from the NC Department of Commerce shows that the child care industry lost six percent of its workers from 2019 to 2021, arguably the worst part of the COVID-19 pandemic. While the "NC Early Care and Learning Dashboard" administered by NCDHHS-DCDEE shows that the child care workforce has rebounded since the pandemic (up three percent or 1,300 staff members from January 2018 through September 2024), staffing is not keeping pace with demand.

The primary drivers of the child care workforce crisis are:

- There are not enough qualified (competent, experienced, or educated/trained) early childhood professionals available in the marketplace or pipeline.
    - From 2010 to 2019, before the COVID-19 pandemic, early childhood education (ECE) enrollment at NC community colleges dropped more than 40 percent.
    - The percentage of "early childhood educators" (child care employees who identify as teachers or assistant teachers) with an ECE associate degree is down three to four percentage points from 2019 to 2023, in both licensed child care centers and FCCHs, according to the 2023 Workforce Study from the Child Care Services Association (now called "Early Years").
    - A similar decrease is seen in the 2023 Workforce Study with regard to teachers and assistant teachers in licensed child care programs holding other ECE credentials, such as the NC Early Childhood Credential (NCECC), the Infant-Toddler Certificate, Preschool Certificate, or the Child Development Associate (CDA) Credential from the National Council for Professional Recognition.
- High-quality child care centers and FCCHs cannot bring in enough revenue to offer competitive compensation packages (wages and benefits) without raising tuition and fees to the point of pricing current and new families out of care.
    - According to a 2021 US Treasury report, most for-profit child care facilities operate on razor-thin margins, which means that providers who might want to raise wages to attract new workers often cannot do so without having to increase costs for parents or cutting the number of children they can serve.

    - According to the 2023 Workforce Study from the NC Child Care Services Association, starting median hourly wages for child care "teachers" in 2023 was $14 per hour, as reported by "administrators" (directors). The starting "assistant teacher" median hourly wage was $12 per hour.
    - The self-reported median wage for child care program "administrators" (directors) was $21.63 per hour.
- According to the same Workforce Study, in 2023, only 49 percent of licensed child care centers offered health insurance benefits to their employees (17 percent offered fully paid and 32 percent offered partially paid).
- Only 43 percent of licensed child care centers offered retirement benefits.

Association health plan(s) for licensed child care would help attract employees to child care jobs and help keep them in the field, which would reduce costs and turnover.

Recent changes to state laws and regulations to authorize and facilitate a small-business health care product that will result in lower-cost, higher-quality health insurance options for employers should bring meaningful relief and a significant new employee-recruitment benefit for child care businesses that are unable to afford current options. In 2023, only 32 to 55 percent of private child care businesses, depending upon structure and size, offered partly or fully-paid health insurance to their employees. Providing an affordable health care product for small businesses, including licensed child care providers, will increase the number of child care programs that can provide high-quality benefits to their employees and their families, enhancing child care jobs and providers' ability to recruit and retain quality staff needed to expand services.

A multi-faceted solution to the child care staffing crisis will include economical, efficient, and rapid workforce development to ensure a qualified child care workforce and quality services, along with child care job enhancements, such as increasing the number of licensed child care programs that offer market-competitive wages, health insurance, and other typical and/or industry-specific employer benefits to employees. Regulatory reforms will also be needed to ensure that ineffective, outdated, and/or inflexible workforce development strategies and requirements do not serve as a barrier to entry into the field or penalize innovations, such as local Child Care Academies.

While it is true that many crucial industries across the state – from health care to construction to manufacturing – are also facing staffing challenges, many of the nurses, roadbuilders, medicine makers, and food producers that North Carolinians depend on will not be able to work without adequate supply of qualified child care employees to fulfill and expand the state's network of high-quality child care providers.

Innovative workforce development versus status quo

Since the early 2000s, North Carolina has largely relied on higher education (community colleges and universities) to develop and prepare the child care workforce. More than two decades later, with long-running scholarship and wage-supplement programs to incentivize higher education, only 20 percent of "teachers," 9 percent of "assistant teachers," and 10 percent of FCCH providers hold a bachelor's degree or more in ECE or child development (CD), according to the Child Care Services Association 2023 Workforce Study. Only 23 percent of "teachers," 20 percent of "assistant teachers," and 25 percent of FCCH providers have an associate degree in ECE or CD.

Licensed child care programs have for decades cited difficulties in not only identifying and hiring college-educated staff members for their licensed child care programs, but also in convincing new hires or relatively older, experienced, or long-term employees to enroll in community college ECE programs to obtain specialized early childhood infant-toddler or preschool certificates, or an associate degree. Candidates for hire and employees often cite entrance exams, math and English pre- and co-requisites, having to attend classes or complete coursework during nights and weekends, and costs as barriers to college enrollment and course, program, or degree completion.

While ECE career pathways that include college degrees and specialized areas of study are important to the field overall to increase retention and job satisfaction, if North Carolina is going to produce the qualified workforce necessary to meet the demand for high-quality child care services in a timely manner, the state must lean less heavily on higher education to train and prepare early childhood professionals and more heavily on strategies that are more accessible, affordable, flexible, and expeditious. According to a 2020 survey of T.E.A.C.H. Scholars by the T.E.A.C.H. Early Childhood National Center, the average amount of time for a graduate to complete the program and earn an early childhood-related associate degree was 4.6 years, and in a follow-up survey one year later, the median years of participation in the T.E.A.C.H. program reported for these graduates was three years for an associate degree.

North Carolina has already taken some actions to address the child care workforce crisis through new workforce development strategies, either statewide or locally:

1. **Apprenticeship (and pre-apprenticeship) programs**
2. **Child Care Academies**

Apprenticeship programs show promise

In 2023, Governor Cooper announced the Building Bright Futures (BBF) early childhood education pre-apprenticeship-to-apprenticeship pilot program with federal American Rescue Plan Act funding in the form of a grant from NCDHHS-DCDEE. The program is a partnership between the North Carolina Business Committee for Education (NCBCE) and NCDHHS-DCDEE to pilot new pathways to entering the early childhood profession, modeled after a pre-apprenticeship program launched in McDowell County in 2021. In addition to NCDHHS-DCDEE, other partners for BBF include ApprenticeshipNC (NC Community College System) and the Office of Career and Technical Education in the NC Department of Public Instruction.

BBF creates supportive pathways for high school and postsecondary students to earn credentials (up to an associate degree), while also obtaining hands-on, work-based learning experiences in the ECE field. Among other benefits, the program offers wage support and mentor stipends to child care providers (employers), stipends for transportation and completion for pre-apprentices (high school students), along with college credit and credentials, and transportation stipends, paid work-based learning and credentials, certificates, and degrees to apprentices.

Two major advantages of the BBF apprenticeship program are that the trainee gets work-based learning and mentorship to help them more effectively manage a classroom, which should help reduce high turnover in child care programs, and the child care provider (employer) does not lose an employee to off-site learning in a campus classroom or lab setting. In 2022, prior to the launch of BBF, there were 49 ECE apprentices. In the first year of the BBF pilot, that number grew to 171 (249 percent increase) and the second year to 378 (671 percent increase).

According to the BBF website, the child care pre-apprenticeship-to-apprenticeship pilot program has 189 participating organizations in 66 counties with 400 pre-apprentices and apprentices. The majority (65 percent) of individuals who entered the program had only a high school diploma at the start of the apprenticeship.

Child Care Academies are scalable local solutions

Buncombe and Catawba counties were trailblazers introducing innovative Child Care Academies as a response to the lack of child care workers in their communities. At least seven counties have followed (Cabarrus, Davidson, Davie, Johnston, Rowan, Stanly, and Wayne counties). With philanthropic funding from the Camber Foundation, local Smart Start Partnerships in Johnston and Wayne counties joined a collaborative effort with local community colleges to offer a two- or three-week Child Care Academy training program that is free to participants and aims to prepare individuals for work with young children in a licensed child care program.

The academy concept was designed to attract child care employees without experience and rapidly ready them for the profession by providing hundreds of dollars' worth of free training required by state and federal regulations. Elements of the academy include classroom management, understanding a child's development and challenging behaviors, recognizing child abuse and trauma, and health-and-safety practices, including required CPR and first aid, medication administration, and sudden infant death syndrome (SIDS) trainings.

Participants who complete the Johnston-Wayne Child Care Academies have an opportunity to pass a competency test to earn their NC Early Childhood Credential so they would immediately be qualified to fill a "Lead Teacher" position, required in every licensed child care classroom, without any additional college coursework or training. Participants also complete required criminal background checks during the two- or three- week training session – paid for by the academy – which must be done before any child care employee can be hired into any position in a licensed child care program. Participants must commit to six hours per day for two or three weeks and upon completion of the academy are honored with a graduation ceremony after which job-placement efforts are made.

The first two Johnston-Wayne Child Care Academy cohorts resulted in 18 graduates. Considering North Carolina's staff-child ratio regulations for licensed child care, that number could provide qualified staff for nine additional infant or toddler classrooms (90 additional infants or 108 additional toddlers) or nine additional four-year-old classrooms (225 additional preschoolers) in these communities.

Additional child care workforce-development solutions

In addition to extending the Building Bright Futures ECE apprenticeship pilot program and scaling innovative Child Care Academies statewide, other workforce-development strategies recommended by licensed child care providers include the following:

- *Reinstitute a statewide NC Early Childhood Credential Equivalency Exam to allow potential child care employees and those already working in licensed child care programs to demonstrate competencies without having to enroll in college and complete the college course required to serve as a "Lead Teacher" (EDU 119).*

North Carolina's first Quality Rating Improvement System (QRIS) for licensed child care relied heavily on higher education to develop the child care workforce and improve, measure, and communicate program quality. Between 2000 and 2007, to ease the transition for child care providers, NCDHHS-DCDEE offered a "competency test" option for child care staff and candidates. Instead of grandfathering or exempting licensed child care employees at the time from the new QRIS higher-education workforce requirements, a "competency test" offered an opportunity for child care employees to demonstrate their knowledge to avoid having to enroll in college and complete required coursework to get their NC Early Childhood Credential and lead a child care classroom. NC DHHS-DCDEE ended the practice in 2007, however, to ensure that all future child care employees leading child care classrooms, centers, or family child care homes enrolled in college and completed required college coursework to earn their credential(s) and for programs to earn higher star ratings.

In 2022, the NC General Assembly passed legislation requiring that a competency test for the NC Early Childhood Credential be reinstituted. It was developed by NC Community College ECE faculty and implemented online by NCDHHS-DCDEE, but removed less than a year later because the DCDEE platform hosting it was not secure enough to prevent fraud. There is not currently a comparable competency test available to child care employees, despite the law that passed. Instead, some community colleges, at their discretion, offer their enrolled students an opportunity to "test out" of the course(s) required to earn the NC Early Childhood Credential and thereby qualify – according to state standards – to lead a child care classroom or serve as an administrator or director of a licensed child care center or family child care home.

- *Implement an experience equivalency for the NC Early Childhood Credential wherein a certain amount of experience working in a licensed child care program would earn an employee the required credential to fill the role of "Lead Teacher" in a child care classroom and would be treated the same as other methods for earning a credential in the state QRIS.*

Home-based licensed child care providers have long sought recognition and credit for their years of experience comparable to that for community college coursework in the state QRIS to enable them to earn a rated license that would qualify them to serve low-income working families eligible for child care subsidies.

- *Expedite the creation and implementation of a Child Care Workforce Registry to facilitate state-level collection and use of key data on the size, characteristics, and working conditions of the child care workforce.*

There are 45 states with child care workforce registries, but North Carolina is not one of them. NCDHHS-DCDEE is reportedly in the process of developing a child care workforce registry. These registries are a critical component of an effective workforce development system as they can and should provide consistent data on the child care workforce. They are designed to verify, securely store, and track demographic information, current and past employment, training, and education, specializations, and professional growth. North Carolina collected significant data related to licensed child care program staff in applications for Stabilization Grants since 2021, including information on roles, educational attainment, compensation, and demographic data that could inform an initial workforce assessment.

Employer Child Care Tax Credits in Targeted States

Examination of 28 states similar to North Carolina in population growth trends and governance (see Appendix A) demonstrated that the most common employer-focused policies aimed at expanding the supply of quality, affordable care in recent years were employer child care tax credits (12 states – see Appendix B). According to the Committee for Economic Development, 25 states have an employer child care tax credit or employer tax incentive for child care. North Carolina is not one of them. These credits are designed to encourage employers to provide child care directly, contract within their community for child care for their employees, or help either expand the supply of child care or make it more affordable for their employees.

Although employer child care tax credits were repeated often in the 28-state examination, some critics assert that they are ineffective and that underutilization is evidence. On the other hand, some policy think tanks recommend that states consider these types of tax credits for businesses to encourage and expand employer-sponsored child care benefits. Using a similar federal employer child care tax credit as a comparison, businesses have reported to Congress that a lack of employer awareness undermines utilization, and that the federal credit does not sufficiently offset child care start-up and long-term costs. They have suggested increasing outreach and education and redesigning the credit.

IOWA'S EXAMPLE

Iowa's employer child care tax credit provides one example that may be attractive to employers in North Carolina. For tax years on or after January 1, 2023, Iowa offers employers that operate or contract for the provision of child care a tax credit against individual and corporate income tax, franchise tax, gross premiums tax, or the moneys-and-credits tax in an amount proportionate to the federal section 45F credit (Iowa Code § 237A.31). An employer child care tax credit modeled after Iowa's would be more meaningful if it was not proportionate to the federal section 45F credit – unless the federal credit is redesigned. (While text had not been submitted as of Feb. 23, 2025, H.R. 1425 has been introduced in Congress by Pennsylvania Republican Representative Ryan Mackenzie that would revamp the federal 45F credit available to employers that provide child care assistance "to increase the amount of the child tax credit, to make such credit fully refundable, to remove income limitations from such credit, and for other purposes.")

ALABAMA'S EXAMPLE

Another example is a series of tax credits signed into law in 2024 by Alabama Governor Kay Ivey. The Alabama state legislature passed the child care tax credits in House Bill 358 to help increase the state's low labor-force participation rate (58 percent in 2024), including income, excise, insurance-premium, and utility tax credits.

Subsidized Child Care to Recruit and Retain Child Care Workforce to Expand Supply

The second most common strategy in the 28 states examined was the use of federal and/or state government funding to provide heavily subsidized child care for anyone willing to work in a licensed, registered, or otherwise regulated child care program (eight states – see Appendix C). A program that began in Kentucky to rebuild the child care workforce has spread across the country as more than a dozen states have either launched similar programs or are considering it.

The basis for the initiative is simple – an ample supply of child care staff will increase the supply of child care, allowing more working-age adults with young children to join or re-enter the overall workforce. It is well documented that high-quality child care programs operate on thin margins and therefore have difficulty offering competitive compensation (wages and benefits) to attract and retain employees without raising tuition and pricing families out of care. This potential solution provides a powerful recruitment and retention tool to help child care providers fully staff their programs, expand services, reduce waitlists, and reduce high turnover.

Iris McRae, owner/operator of a five-star child care center in Rockingham (Richmond County), gives tuition discounts to some of her teachers with young children in order for them to be able to work at her facility, which costs her about $3,000 a month in revenue that she could be using to cover significant cost increases for necessities such as food, supplies, and insurance. Centers such as Iris's are rare and particularly valuable in her county because she operates 24 hours a day to accommodate parents who work late-night shifts in health care and manufacturing plants. Additionally, 95 percent of her families receive child care subsidies, which is a difficult financial situation for high-quality child care providers due to state reimbursement rates that fall short of program costs. She described what a workforce recruitment-and-retention initiative like Kentucky's would mean for her program and teachers:

"They're still struggling paying those [tuition] fees. I can't keep hiring teachers and giving them these big discounts. If the state covered their tuition, it would relieve that burden for my program and those teachers and help us serve more families."

– Iris McRae, Owner/Operator, Over the Rainbow Child Development Center

Considering North Carolina's staff-child ratios in licensing rules, each additional child care employee (Lead Teacher) enticed to the field by the prospect of free or affordable child care for their own children could open space for anywhere from five additional infants to 20 additional four-year-olds.

Employer-Focused Capacity-Building Grants

Another strategy that was repeated among examined states involved government funding for employer-focused capacity-building grants (six states – see Appendix D). Grants from these programs were available to employers, child care providers, hospitals, and local communities depending upon the program, and were designed to encourage investments in child care from other stakeholders, along with state and local governments.

These grant programs have created or are expected to create anywhere from 4,200 to 52,000 new child care slots in the following states: Idaho, Iowa, Kansas, Missouri, Tennessee, and Texas. State investments to implement these grant programs ranged from $35 million to $75 million.

North Carolina utilized child care "Expansion and Access Grants" in 2023 with $20 million in one-time federal funding approved by state legislators in 2022, but there were no requirements that other stakeholders invest in child care to draw the grant funds. Instead, the grants were awarded to licensed child care providers in a competitive process that prioritized child care deserts, low-performing and high-poverty school districts, and infant care.

NCDHHS-DCDEE reported at the time that they received $759 million in grant requests for just $20 million in available grant funding. They awarded 200 one-time grants of up to $125,000 to assist with start-up costs associated with establishing a new licensed or regulated child care facility, quality improvements for existing licensed or regulated child care facilities that increase classroom or facility capacity or upgrade its star rating, or capital improvements or renovations to existing licensed or regulated child care facilities, including adding or upgrading outdoor play and learning environments. Data on the impact of these grants related to child care capacity or expansion has not yet been made available to the public.

Property Availability, Use, and Costs

Along with labor, property availability and costs are a major child care cost driver and barrier to expansion of accessible, affordable, and high-quality child care. In North Carolina, licensed child-care centers have significant regulatory and infrastructure requirements that providers must meet, including industry-specific building code and minimum square-footage requirements (for both indoor and outdoor space). High-quality child care providers face high buildout costs and landlords that are skeptical about leasing space to a child care provider given their specific buildout needs, potential liability, and how much rent they can afford compared to other prospective commercial tenants. Because property is a major piece of the child-care-supply equation, policy changes in recent years related to property use and costs in 28 examined states are also worth noting.

TACKLING PROPERTY-USE REGULATIONS TO EXPAND CHILD CARE SUPPLY

While not as common as employer child care tax credits, subsidized child care for child care employees, or capacity-building grant programs, several states have implemented property-use regulatory reforms or strategies aimed at expanding child care supply.

Arkansas, Montana, and Oklahoma all passed legislation in 2023 (House Bill 1155, House Bill 187, and House Bill 2542, respectively), clarifying that local authorities shall treat a family child care home (FCCH) as residential property use, rather than a commercial one, to ensure no stricter requirements for FCCHs than those in the states' Fire Prevention Code(s), and to shield small child care providers from being constrained by restrictive homeowners' association (HOA) covenants.

In Kentucky, House Bill 561, signed into law by the state's governor in 2024, creates "certified child care communities" in the state by encouraging local governments to look at zoning ordinances to make sure there are not any regulations preventing child care centers from opening in local counties or cities. "Certified Child Care Community" designation is granted by the state's Cabinet for Economic Development, which provides recommendations and best practices for child care-friendly land-use policies to communities.

"By obtaining the Certified Child Care Community designation, local governments can send a strong message to working families that they prioritize kids and quality child care and to employers that they are serious about solving workforce challenges."

– Charles Aull, Executive Director, Center for Policy and Research at the Kentucky Chamber of Commerce

LOWERING PROPERTY COSTS TO EXPAND CHILD CARE SUPPLY

In **Florida**, state lawmakers recently established two different ways for licensed child care facilities to qualify for a property tax exemption.

1. Licensed child care facilities that participate in the state's Quality Rating Improvement System (QRIS) are considered an education institution for the purpose of qualifying for exemption from property tax.
2. Licensed child care facilities operating in "enterprise zones" qualify for a property tax exemption. (Enterprise zones are geographic regions that are granted special status by the government to encourage economic growth.)

In **Texas** in 2023, voters approved "Proposition 2," an initiative that allows cities and counties to provide a property tax exemption for property used to operate a child care facility. The legislature established eligibility criteria for the exemption, including that the provider must participate in the state's QRIS program and serve at least 20 percent of their enrolled students through the federal Child Care Assistance Program (CCAP). The exemption is applicable regardless of whether the early childhood provider owns the property and municipalities must offer at least a 50 percent tax exemption. Many major Texas cities have already adopted this exemption, including Austin, Dallas, Houston, and San Antonio.

The **North Dakota** legislature amended and re-enacted a section of the state's tax code in 2021 to expand a property tax exemption available for owners of property used primarily to provide child care services or adult day care to those that rent or lease the property and use the property for those purposes. The exemption can be granted for fixtures, buildings, and improvements, and applies to corporations, limited liability companies, or licensed child care providers, but is not available for properties used as a residence.

Solutions from NC Organizations

In addition to examining policies and investments in 28 states with similar population growth trends and governance, recommendations from prominent, relevant North Carolina organizations were also researched. Organizations studied include:

- NC Child
- NC Early Childhood Foundation
- Care-and-Learning (CandL) Coalition, led by NC Child, NC Early Childhood Foundation, and Black Child Development Institute – Charlotte
- NC Early Education Coalition
- NC Licensed Child Care Association
- MDC – NC Home-based Child Care Initiative
- NC Partnership for Children (Smart Start)
- John Locke Foundation

Each of these organizations raises sensible considerations or promotes certain actions for North Carolina to take to expand access to affordable, high-quality child care for families with young children. In reviewing the opinions and recommendations of these organizations, noteworthy overlap exists and provides important considerations in attempting to address the state's ongoing child care challenges.

SET CHILD CARE SUBSIDY REIMBURSEMENT RATES BASED ON COSTS; REDUCE GEOGRAPHIC DISPARITIES

Of 13 identifiable proposals or recommendations from these organizations to help address North Carolina's child care crisis, the most common one was to increase reimbursement rates to licensed child care providers for serving low-income, working families who qualify for child care subsidies (five of eight organizations). Like other states, North Carolina's current rate-setting methodology for the federal Child Care Assistance Program (CCAP) is based on a market survey of tuition and fees, rather than actual or estimated costs, which results in major geographic inequities among counties – effectively penalizing low-income and rural markets. For example, in the most extreme case, the difference in reimbursement between the same quality providers (five-star) serving children of the same age (infants) exceeds $700 per child per month, comparing Chatham and Randolph counties.

This means child care providers in Randolph County set their prices for families substantially lower than providers in Chatham County because families could not afford to pay for services otherwise. It does not mean that their costs are lower in an equal amount as prices. It means that they have substantially less revenue to invest in their program, especially their staff, which is not only the key determinant of quality, but also whether a program is able to expand its services.

The market rate-setting methodology for the federal child care subsidies program penalizes providers with lower parent fees because their reimbursement rates for serving low-income working families are based on the average of what providers in a county charge and set at the 75th percentile of that number. (The federal government recommends that states set provider reimbursement rates at or above the 75th percentile of the market rate, which is the price at which the lowest 75 percent of the child care programs included in the market rate survey report charging for child care services.)

The two biggest child care cost drivers are labor (70-80 percent of a typical program's operating costs) and property. Therefore, there should be some market differences between counties that would impact subsidy reimbursement rates. It is likely far from accurate, however, that Randolph County child care operators can provide the highest quality care for an infant for $700 less per month than is required to provide the care in Chatham County. Consider the following information:

	Chatham Co.	Randolph Co.	% difference
Avg. annual wage child care services (2023)	$29,848	$29,016	2.9%
Avg. annual private-sector wage (2024)	$48,413	$45,801	5.5%
Median household income (2022)	$84,222	$56,423	39.5%
Median listing price/sq. ft. (homes)	$277/sq. ft.	$178/sq. ft.	43.5%
Subsidy rate for centers for five-star infant care/mo.	$1,582/mo.	$867/mo.	58.4%

Sources: NC Department of Commerce Quarterly Census of Employment and Wages, NC Department of Commerce Average Private Sector Wages, DataUSA, Realtor.com, Subsidized Child Care Market Rates for Child Care Centers, effective 10-1-2023

Note: *Median listing price per square foot (PPSF) for homes was used instead of median price per square foot for commercial property because the latter varies greatly within a county based on location (downtown versus rural areas). For example, in 2019, in Chatham County, the average PPSF for commercial property ranged from $4 - $28.*

Costs for necessities such as food, age- and developmentally appropriate supplies, utilities, and insurance are not substantially lower in Randolph County than in Chatham County, leaving high-quality providers in Randolph County and others with the lowest subsidy reimbursement rates with no room to adjust expenses without driving down staff compensation.

In another example, a five-star child care provider in Richmond County is reimbursed $109, $285, and $288 per child per month less for providing infant care than comparable providers in three bordering counties (Montgomery, Moore, and Anson). For providing care for two-year-olds, she is reimbursed $151, $280, and $318 per child per month less than providers in those counties, and for 3- to 5-year-olds, she is reimbursed $99 and $375 per child per month less than providers in two of those bordering counties (Moore and Anson). Because 95 percent of the families served by her 24-hour child care center qualify for child care subsidies, wide disparities in subsidy rates between her county and three bordering counties severely impacts her ability to recruit and retain staff to meet demand for services in her community. Due to inadequate subsidy rates, she reported recently that she can only afford to pay teachers with an associate degree in ECE $12 per hour, which is less than fast-food chains in the county.

Market rate surveys have been required by the federal Child Care and Development Block Grant (CCDBG) – the primary funding stream for child care subsidies – for decades. The flawed rate-setting methodology is a disincentive for high-quality child care providers to serve low-income working families who qualify for subsidies, particularly in low-wealth counties where reimbursement rates are lowest and markets are dense with subsidy-eligible families. Recognizing the need for a fix in states across the country, the federal Office of Child Care is allowing states to develop new models to calculate child care subsidy rates.

Cost modeling child care subsidy rates studied for NC

Cost modeling is a common business practice used to analyze the cost of producing a product or service, identify cost levers, and help determine prices. More than two dozen states have implemented a cost-modeling analysis for child care subsidy rates, according to the Bipartisan Policy Center. **New Mexico** and the **District of Columbia** are already using a cost-estimation model to satisfy federal CCDBG requirements (since 2015 and 2021, respectively), though data about the impact on child care supply is not readily available. Even with accurate cost-modeling, the overall supply of child care can still be impacted by broader market factors (availability of qualified staff, operating costs, economic conditions, government regulations, competition, consumer preferences, and behavior, etc.), which affects impact analyses.

Proponents of cost-modeling to determine reimbursement rates for child care subsidies tout the following benefits – if/when new cost-modeled subsidy rates are funded:

- Provides a more accurate reflection of child care costs to better shape and understand related policy decisions
- Improves providers' financial stability, helping to preserve child care infrastructure (fewer closures)
- Lowers costs for families, who often cannot afford to make up the difference between inadequate subsidy rates and tuition charged private-pay families (called "over-market" rates/fees)
- Expands affordable, high-quality child care options for more families in more communities

NC DHHS-DCDEE contracted with the American Institutes for Research (AIR) to study alternative rate-setting methodologies for the CCAP (child care subsidies program) and develop three alternative models for setting provider reimbursement rates in the state that reflect the true cost of providing high-quality child care services and sustaining child care businesses.

According to state officials in NCDHHS-DCDEE, current subsidy rates cover only about half of what child care really costs. Recommendations resulting from the rate-setting study are:

- Base child care subsidy reimbursement rates on what it costs to provide and sustain child care and retain quality staff.
- Use one statewide rate based on the age of the child (the youngest children are the most expensive) and the quality of the program, reducing administrative burdens by moving from more than 3,000 current child care subsidy rates to just 21, and eliminating the rural penalty that falsely assumes significantly lower costs in rural or low-wealth communities.
- Phase in setting subsidy rates at 100 percent of the estimated cost of providing safe, high-quality child care.
- Support children with special needs by increasing the child care subsidy reimbursement rate by 5 percent for a child with special needs in an inclusive setting.
- Help families working nonstandard hours and the businesses that need them by increasing the child care subsidy reimbursement rate for care provided during those times (atypical shift and 24-hour care).
- Automatically adjust rates annually for inflation.
- Collect data to update the estimated cost every two years.

Implementing these recommendations comes with a hefty price tag, requiring a recurring investment that is nearly double what North Carolina currently spends on child care subsidies, which was roughly $500 million in 2024, according to NCDDHS-DCDEE officials. (Most of the funding comes from the federal government, but states are required to contribute a minimum amount to secure the federal funding.)

Set a new "rate floor" within the market-rate system for child care subsidies

Another proposal for increasing provider reimbursement rates for the child care subsidies program involves establishing a new "statewide rate floor" under the current market rate-setting system to eliminate disparities among counties that are too wide (sometimes called the "rural penalty"). Under this approach, instead of using each county's average market rate (average tuition charged) to set the rate for child care providers in the county, the proposal would use the statewide average market rate to set a rate floor to ensure that no county's reimbursement rate is lower than that amount.

The proposal for a new statewide rate floor for the child care subsidies program was included in bipartisan legislation in 2023 sponsored by the NC General Assembly's "Early Childhood Caucus" co-chairs, but failed to pass. The cost to implement the proposal in 2023 was $95 million. Because a more recent market-rate survey has been completed since the 2023 legislation was introduced, proponents of a new statewide rate floor for child care subsidies say the proposal would now require a recurring state investment of roughly $220 million.

This approach would mean that subsidy rate increases would be largest for providers in counties with the lowest current rates. Any county with current rates (variable based on the age of children served, quality/star rating of the program, and the county) that are lower than the new statewide rate floor would see rates increase up to the floor amount. Counties where rates are at or above the new floor would be held harmless, ensuring that no current reimbursement rates decrease, which is an important component considering that current subsidy rates only cover approximately half of the true costs of providing care, according to NCDHHS-DCDEE.

As an example, according to research from NC Child, the new statewide rate floor under the 2023 legislation for five-star infant care would be $1,400 per month per child. Under the updated market-rate survey, the statewide rate floor would be closer to $1,500 per month per child. For context, the following charts illustrate the 10 highest and 10 lowest five-star infant rates for child care centers in North Carolina.

Child Care Subsidy Rates, effective Oct. 1, 2023

10 Highest Subsidy Reimbursement Rates For Infants In Five-Star Licensed Centers

Rank	County	Subsidy Rate: 5-Star Infant
1	Orange	$1,620/month
2	Chatham	$1,582
3	Wake	$1,573
4	Durham	$1,564
5	Mecklenburg	$1,473
6	Camden	$1,383
7	Cabarrus	$1,382
8	Union	$1,380
9	Northampton	$1,352
10	Transylvania	$1,284

10 Lowest Subsidy Reimbursement Rates for Infants in Five-Star Licensed Centers

Rank	County	Subsidy Rate: 5-Star Infant
1	Lenoir	$761/month
2	Caldwell	$780
3	Cleveland	$798
4	Duplin	$808
5	Beaufort	$810
6	Watauga	$822
7	Greene	$837
8	Burke	$901
9	Pasquotank	$914
10	Chowan	$918

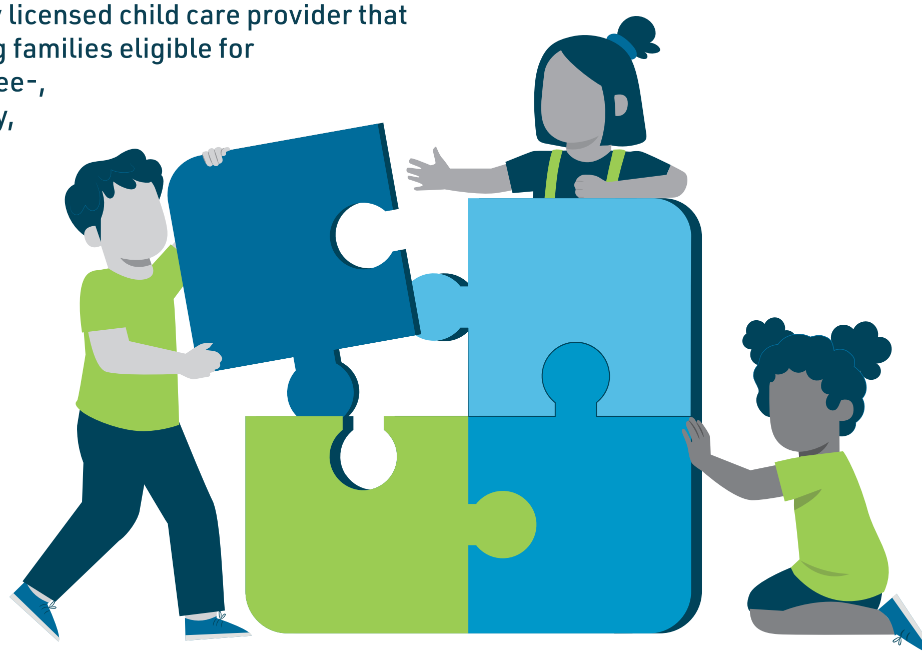
MODIFY THE QRIS (STAR-RATING SYSTEM) FOR CHILD CARE

The second most common proposal, recommended by four of eight organizations, is to modify North Carolina's Quality Rating Improvement System. North Carolina's QRIS, also known as the "star-rated license" or "star-rating system" is a systemic approach to assess, improve, and communicate the level of quality in child care.

North Carolina led the nation in 1999, when it launched QRIS. Aside from minor revisions in 2005, the state has not made any significant changes to the system since its launch 26 years ago. While a state license is required to open and operate a child care program in North Carolina, which comes with a 137-page book of rules and triggers state regulatory oversight to keep children safe and healthy and ensure a minimum standard of quality, participation in QRIS is voluntary.

North Carolina's QRIS has five levels or star ratings for licensed child care programs, with two stars being the lowest quality rating and five stars being the highest. (There is technically no "one-star" rating that is based on program assessment; instead, North Carolina issues a one-star license to any child care program that chooses not to participate in its voluntary QRIS and does not have their program assessed and rated.) A 2017 study from the National Bureau of Economic Research called North Carolina's QRIS the most expensive in the country, citing $13 million spent annually to administer it nearly a decade ago.

Although a star-rated license is voluntary in North Carolina, there are state laws and policies that compel licensed child care providers to participate. For example, state law requires that any licensed child care provider that wants to serve low-income, working families eligible for child care subsidies must have a three-, four- or five-star rating. Additionally, the state's NC Pre-K program for at-risk four-year-olds requires that licensed child care providers who want to serve as NC Pre-K sites have a four- or five-star license. Concerns about community and customer perceptions and competition also move many providers to participate since choosing not to do so means that programs receive a one-star license/rating without any public understanding that the provider has not been rated.



Most licensed child care providers support the concept of QRIS, if not the complex and costly system details, believing strongly in maximizing evidence- and science-based quality because of the importance of positive, supportive adult-child interactions and a safe, stimulating, age- and developmentally appropriate learning environment to healthy brain development in children under five years old. Learning and accepting the significant and long-lasting impacts that a child's environment and adult-child interactions have on brain development, 80 to 90 percent of which is complete by age five, coupled with the fact that the federal government started funding child care subsidies for working families in 1990, and wanted to ensure they were getting a positive return on their investment, instigated the first QRIS. At least 45 states have a QRIS now, up from five in 2001, and their proliferation stemmed from federal Race to the Top—Early Learning Challenge grants offered in 2011, to encourage and help establish successful state systems.

The timely question in North Carolina is not whether quality matters in child care. The question is whether the state's system used to assess, improve, and communicate quality in child care (QRIS) is effective, equitable, workable, and would pass a costs-benefits test.

Questions about the effectiveness of QRIS in improving child care quality and outcomes have been raised for more than a decade. In 2013, Terri Sabol, an assistant professor of human development and social policy at Northwestern University, authored one of the first research papers to raise concerns about rating systems that attempted to boil several measures down to one score. The paper revealed that a single measure – teacher-child interactions – was more predictive of good child outcomes than composite scores provided by QRIS.

In 2017, six years after the proliferation of QRIS in states across the country, the RAND Corporation published an article centered on assessing what the early childhood field had learned about QRIS and how to make a second generation of systems better. The article explained that as QRIS (systems) have evolved, they have increasingly embraced objectives other than informing parental choices and improving quality, such as "professionalizing the ECE workforce," which "threaten to divert QRIS (systems) from their primary mission of improving child outcomes."

In their examination of available research at the time, coupled with their own work in Colorado, RAND Corporation researchers attempted to assess and explain whether QRIS ratings are valid. More specifically:

1. Do child care programs with a higher rating have higher quality?
2. Do children in higher-rated programs show better developmental outcomes than children in lower-rated programs?

Their findings from the 12 published validation studies reviewed suggested some progress in the development of valid rating systems, but they explained that the evidence was limited and often contradictory, preventing firm conclusions about the validity of QRIS ratings as designed up to that point (2017). Notably, they found that differences in quality from one rating level to the next are typically small.

Their findings from seven studies examining whether children in higher-rated programs show better developmental outcomes than children in lower-rated programs showed a "modestly positive relationship between QRIS ratings and children's developmental gains in at least one domain during their time in the program," but they noted that the relationships were "mostly weak." They also noted that two of the seven studies failed to find any significant relationship between program ratings and children's learning.

Another 2017 study of Oregon's QRIS similarly reported that even though providers were ranked on a five-star scale like in North Carolina, there was no difference in observed quality between programs rated one-star versus two-star, or between programs rated three-star versus four- or five-star. Oregon has since overhauled their QRIS.

A 2019 report prepared at the request of the U.S. Department of Education, looked at nine states that had conducted their own research on how they were measuring child care quality and found that children who attended higher-rated programs did not have better developmental outcomes than those who attended lower-rated ones.

Robert Pianta, dean of the Curry School of Education at the University of Virginia, has been critical of the complexity of many QRIS systems and conducted research that suggests measurements of the environment aren't a useful gauge for the educational experience a center is providing. He also says, however, that repealing the systems altogether – as Mississippi has done, citing "financial reasons" – would be a mistake.

Dr. Kelly Etter, vice president of Early Childhood Equity Initiatives with the Policy Equity Group, asserts that evidence is mounting that QRIS is ineffective, and in many cases may be destructive and biased. She explains that what she calls "the quality-industrial complex," which is comprised of assessment publishers, departments within state agencies to manage QRIS, the quality raters, and the coaches, perpetuates inequities. In "QRIS: Building the Case for Knocking It Down," Dr. Etter presents a series of videos using children's blocks to make her case. The first video casts doubt that higher-quality ratings predict better child developmental outcomes.

The second video provides four reasons why QRIS (systems) don't work:

- They put too much focus on diplomas and other "pieces of paper" that do not lead to quality.
- They assume there is only one right way to quality.
- They combine too much complex information into a single data point.
- They ignore variation across classrooms within the same setting.

In the third video, Dr. Etter offers suggestions for how to fix QRIS:

- Center teacher-child interactions.
- Provide educators with tailored support to hone their craft.
- Replace the incentives that widen inequities (such as tiered subsidy reimbursements) with investment in workforce compensation and upfront funding for providers.
- Retire the star ratings in favor of "badges" for specializations.

Contemporary research on QRIS indicates that a much simpler and more narrowly focused approach than most QRIS (systems) is appropriate and beneficial to assess, improve, and communicate quality in child care. Adult-child interactions, or how child care employees teach, talk, and play with children in their care is the key quality driver and where states should focus their quality improvement efforts, based on contemporary research. States have responded to the research and realities of their own child care challenges by making significant changes around their QRIS (systems) during the last decade.

Louisiana, for example, which Dr. Etter calls a "state to watch," overhauled its QRIS and required a new uniform rating system for all child care programs that receive any public funding (state or federal) that focuses solely on observing teacher-child interactions. Trained observers assess those interactions on-site in child care settings twice annually using the "Classroom Assessment Scoring System" (CLASS), developed by Pianta and others at the University of Virginia. CLASS requires trained observers to sit through four 20-minute periods in a classroom, looking for and recording evidence of productivity, teacher sensitivity, and regard for student perspectives. Notes from the observations, to which all center directors have access through an online service, can be used to help decide what kinds of training staff need to improve and the state offers a myriad of professional development classes for free.

Some states are shifting their focus from ratings to quality improvement by changing how observations are used within their QRIS, promoting the use of scores to inform programs' quality improvement without having the added pressure of scores impacting ratings. For example, both **Vermont** and **Michigan** allow programs to receive observations that don't impact programs' ratings and work with a coach to inform their quality-improvement plans. Because prior research surfaces notable inequities within state QRIS (systems), Vermont recently removed tiered reimbursements within its QRIS for providers serving subsidy-eligible families so that all programs will receive the highest child care subsidy reimbursement rate regardless of their rating to ensure that higher-quality, often better-resourced programs do not receive a larger share of available funding while lower-rated, often under-resourced programs that need it most receive a lesser share.

The good news for organizations calling for modifications to North Carolina's QRIS for child care is that system reform, or "modernization," is well underway. Legislation passed by the NC General Assembly in 2023 and 2024 requires the NC Child Care Commission, which is the rulemaking body for child care, to reform North Carolina's QRIS. The work has been ongoing for more than a year and is expected to be concluded sometime in 2025 and implemented in late 2025, or early 2026.

The "framework" for North Carolina's QRIS reform is outlined in Senate Bill 425, ratified on June 28, 2024. However, the details, which are crucial to whether QRIS reform is effective in helping to solve the state's child care supply and affordability challenges, are not included in the legislation and will instead be presented as new child care licensing rules from the NC Child Care Commission. The required report submitted to the NC General Assembly's Joint Legislative Oversight Committee on Health and Human Services by NCDHHS-DCDEE ahead of the QRIS-reform legislation is available for review, but lacks many of the details that were still to be developed by Child Care Commissioners and will become part of the rules that will be presented to implement a new QRIS.

State legislators who supported the framework presented by NCDHHS-DCDEE may not be fully informed about the details of the planned changes or their potential impacts on the overall system and network of licensed child care providers across the state. Given the latest research, it appears that planned changes to North Carolina's QRIS are a significant step in the right direction; however, there is still opportunity going forward to better align the system with contemporary QRIS research and legislative intent, and ensure programs will produce results that will help expand the supply of accessible, affordable, and high-quality child care. Based on available information, the new QRIS under development still appears very complex, includes many rating factors other than staff-child interactions, and relies heavily on higher-education (college) attainment of child care program staff to measure and improve quality and issue star ratings.

For example, a five-star rating in the new, reformed QRIS requires that 50 percent of a program's Lead Teachers (one required in every classroom) meet the following education standards:

- Associate of Applied Science (AAS) degree or higher in ECE/CD ***and*** one year of early childhood work experience or at least six months of coaching/mentoring for at least five hours per week, or
- Completion of all required ECE coursework for an AAS degree program an individual is enrolled in, without full completion of the degree ***and*** one year of early childhood work experience, or
- Completion of at least 60 semester hours toward a bachelor's degree with at least 12 semester hours in ECE/CD ***and*** two years of early childhood work experience, or
- AAS or higher in any major with at least 12 semester hours in ECE/CD ***and*** two years of early childhood work experience or at least six months of coaching/mentoring for at least five hours per week, or
- 10 years of early childhood work experience ***and*** annual completion of 2.5 continuing education units (CEUs) specific to ages/needs of children in care ***and*** successful completion of a competency evaluation

Regulatory Reforms to Improve the Operating Climate

Effective reform of North Carolina's QRIS – the star-rating system by which the state assesses, improves, and communicates licensed child care quality – is substantial regulatory reform necessary to expand accessible, affordable, high-quality child care in the state because:

- It would increase the available talent pool for licensed child care by changing workforce requirements that do not positively correlate to improved program quality and child outcomes.
- It would increase the number and diversity of licensed child care programs available to serve low-income working families by opening new pathways to achieve and demonstrate quality.
- It would focus on adult-child interactions as the key quality driver and use data collected and/or "scores" to inform quality improvement plans and provide child care employees with the supports and training needed to improve program quality and child outcomes.

QRIS reform is not the only regulatory reform that should be considered, however, according to licensed child care business owners, program administrators/directors, and legal experts. A review of child care statutes and licensing rules alongside conversations with frontline program operators and administrators, who implement child care licensing rules (NC Administrative Code 10A, Chapter 9) and laws (NC General Statutes §110 Article 7), surface opportunities to improve the operating climate in North Carolina for both licensed child care centers and FCCHs in order to attract and grow more of them.

CONSULTATIVE SERVICES WOULD IMPROVE QUALITY & OPERATING CLIMATE

Child care is a high-risk business due to the intrinsic safety and liability concerns associated with caring for young children. As a result, licensed child care is heavily regulated in North Carolina, as evidenced by licensing rules that number 137 pages, plus another 41 pages of sanitation rules and 28 pages of subsidized child care rules. Understanding and complying with more than 200 pages of rules, along with 30 pages of state laws, is a massive undertaking for any business or nonprofit, especially independent child care centers and FCCHs operating on thin margins.

When administrators/directors or other staff members of center- or home-based child care programs in North Carolina need help navigating the regulatory maze that governs their operations, they have nowhere to turn for official guidance except for the same individuals who monitor compliance and cite rule violations (licensing consultants who work for NCDHHS-DCDEE). At its core, NCDHHS-DCDEE is an enforcement agency tasked with determining whether rule violations have occurred and citing programs for the same. The child care services industry in North Carolina would benefit from a separate arm of the regulatory agency that exists to offer consultative services to clarify laws, rules and policies, assist providers in effectively complying with the same, and help improve programs' performance and provision of care.

Child care operators and administrators need an ombudsman or unit that they can reach out to for guidance, help with high-risk situations, or to self-report violations by a rogue employee without fear of triggering a compliance visit, investigation by the regulatory agency, or punishment either by administrative actions or legal process. One example in North Carolina is the Consultative Services Bureau in the NC Department of Labor (DOL), which helps small businesses meet safety and health regulations confidentially and free of charge. The employer's obligation in accepting these consultative NCDOL services is to correct all hazards identified by the consultant within a reasonable period. According to DOL literature, if an employer refuses to correct or verify correction of a serious hazard, the "bureau chief may refer the matter to compliance, an extremely rare occurrence in this program."

'DUE PROCESS' NEEDED IN MONITORING & COMPLIANCE PROCEDURES

In the delivery of licensed child care services in North Carolina, history of rule violations is used by the regulatory agency in determining whether to take administrative actions against a center or FCCH, which are costly, time-consuming, and can result in the loss of a program's quality rating and license. Currently, however, there is no process to challenge the issuance of a violation. The issuance of a violation, even if there is no immediate consequence, can have short term effects on morale and long-term financial implications in the way of increased insurance premiums and legal costs defending against civil and administrative actions. There should be due process with respect to violations that are issued by the regulatory authority.

The NC Child Care Commission is the rulemaking body for licensed child care in North Carolina and is granted broad authority to issue regulations with impunity (NC General Statute §110-88). Further, NCDHHS-DCDEE, as the regulatory authority, is permitted to take administrative actions against providers if any provision of North Carolina's child care statutes or rules are violated, without any reference to severity, history, substance, etc. Yet, operators of center- or home-based child care in North Carolina are provided no protections from facing administrative actions for immaterial, isolated, or rogue-employee actions and are not allowed any time to correct any violation to avoid an administrative action. Additionally, there is no provision in North Carolina child care laws or rules that delays any negative enforcement consequences against child care owners/operators during an appeal of an administrative action.

It is counterproductive, especially with child care shortages statewide, to pause or terminate funding during an administrative action or corrective action plan, unless, after all appeals, a child care license is revoked. Currently a child care program may lose the ability to serve families receiving child care subsidies and the ability to enroll new students during the pendency of an administrative action, even while being appealed. This is unnecessarily disruptive to child care providers, their employees, and the families they serve.

Establishing due process rights and procedures for licensed child care owners/operators in North Carolina would significantly improve the operating climate for child care businesses in the state and reduce service disruption. Such measures would protect child care businesses from arbitrary government actions or overreach, ensure they have an opportunity to defend themselves against accusations, and preserve critical funding streams.

REGULATORY AGENCY ACCOUNTABILITY AND REASONABLE TIME LIMITS WOULD PROVIDE MUCH-NEEDED PREDICTABILITY FOR CHILD CARE OPERATORS

The length of time from an incident or violation in a licensed child care setting to resolution of an administrative action that may be taken against a child care provider is costly in terms of resources, time, legal fees, and retention of employees. Therefore, the regulatory authority should adhere to certain time limits or deadlines to instigate and complete investigations of violations that may lead to administrative action, including a deadline to issue an administrative action from the date of the alleged incident or violation. Licensed child care operators and administrators report long wait times for NCDHHS-DCDEE's part in investigations of alleged violations and follow-up of corrective actions plans that cost programs significant revenue and can damage their reputations.

Additional Pressures

In attempting to identify and implement practical solutions to North Carolina's child care crisis, it is necessary to consider emerging threats that could erode the current child care supply in the state and undermine the efficacy of any future solutions aimed at expanding accessible, affordable, high-quality child care here.

BLEAK LIABILITY INSURANCE LANDSCAPE THREATENS CHILD CARE SUPPLY

Licensed or registered child care providers in North Carolina and across the country are reporting eye-popping liability insurance cost increases in recent years, along with coverage reductions, rejections, and denials. An August 2024 survey from the National Association for the Education of Young Children (NAEYC) underscores their stories.

"This is something that poses an existential threat to providers, especially as they're navigating the loss of a significant amount of federal funding that helped sustain and support them during the pandemic. It's one more straw on the camel's back,"

– Daniel Hains, Managing Director of Policy and Professional Development, NAEYC

General liability insurance is necessary for child care providers to protect themselves, their families, and the families they serve from devastating financial losses that could result from lawsuits filed against them due to injuries and accidents that can happen when groups of young children learn and play together. General liability covers third-party claims for bodily injury, property damage, and reputational damage. Due to the nature of caring for infants and toddlers, "abuse and molestation coverage" is as necessary for child care providers as general liability insurance, but is becoming more challenging for providers to obtain than any other.

Liability insurance is mandatory for licensed child care centers in 30 states and 21 of those states also require it for certain types of licensed child care homes. (North Carolina does not.) Even in states without a requirement, however, providers and insurance industry experts report that most banks and landlords dealing with child care programs require it. Child care insurance specialists who work closely with licensed child care programs say they started to notice a shift in the industry around 2023, seeing premium increases from anywhere from 75 to 150 precent of prior premiums.

Results from NAEYC's recent survey of child care professionals in 49 states and the District of Columbia showed that 80 percent of respondents saw their liability insurance costs increase over the last year, while 62 percent reported difficulty finding or affording liability insurance. More alarming, "one-third of respondents noted that they had been denied coverage or received a non-renewal notification on a current policy in the past year, frequently because the insurance company had decided to no longer insure child care programs." Most unsettling, 65 percent of providers said they would have to shut down their program if unable to obtain coverage.

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Although the number of survey respondents was small in NAEYC's August 2024 insurance survey – just 1,173 program owners or operators – the survey results, combined with anecdotal evidence, seem to be a credible warning. Further, in NAEYC's January 2024 ECE workforce survey, which reached more than 10,000 early childhood educators, 36 percent of North Carolina respondents noted that their programs were experiencing an increase in liability insurance costs.

In previous years, Samantha Phillips, a Texas-based insurance agent who has about 300 child care clients across the country, said she had no trouble finding insurance policies that covered up to $1 million in abuse-and-neglect claims for her child care clients. Now, she says that if insurance companies offer child care policies at all, they often do not cover abuse, and if they do, coverage is typically capped somewhere between $100,000 and $300,000 for claims.

Top reasons cited by child care providers for non-renewal or denial of liability insurance included a loss of insurance companies willing to insure child care programs, companies offering liability insurance for child care not insuring in the state where the program is operating, claims filed, licensing violations, licensed capacity or enrollment considered too high or too low, and programs out of compliance with insurance-required staff-child ratios.

Others asked about causes have different responses. Insurance industry brokers have told child care providers that insurance companies "were looking for reasons to drop child care companies" likely due to high risk and costly claims, and anecdotal evidence shows it could be happening over trivial rule violations. Insurance agents have told child care associations that when relatively serious claims are filed over injuries or alleged abuse (even non-sexual, which is often grouped with "maltreatment"), third-party litigation or private-equity-backed lawsuits cause insurance companies to settle with families before fully investigating alleged incidents.

When asked about potential solutions to burgeoning child care insurance challenges, answers vary depending upon who is asked. Licensed child care program employees responsible for liability insurance in their programs told NAEYC in their survey responses the following:

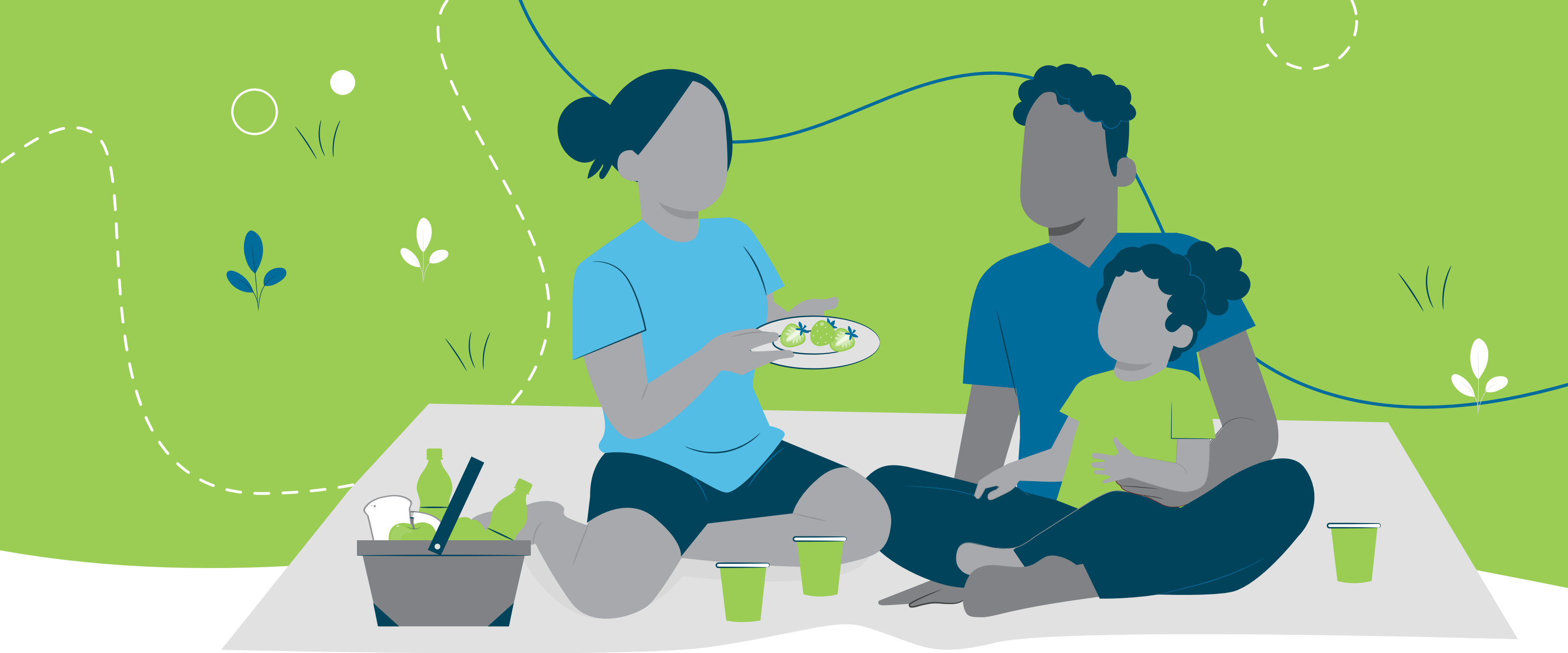
- Educate insurance and licensing agencies on the context and impact of regulations and citations, and help them work together to support safety, clarity, and consistency.
- Directly subsidize and/or control the costs of insurance through discounts, reinsurance pools, caps, policy changes, and other mechanisms.

Legal and insurance-industry experts have suggested tort reforms that provide certainty and protect child care businesses from frivolous lawsuits, including regulating or prohibiting third-party litigation investment (TPLI).

In **Nebraska**, a state senator introduced a resolution this year that proposed an interim study to examine the affordability of liability insurance for child care providers and called for legislative recommendations to improve access and affordability, but it failed to pass. **Montana** lawmakers have discussed "captive insurance" and "reinsurance pools" that could allow for more affordable insurance options for child care providers.

NAEYC urges child care providers and advocates to work with insurance companies to ensure that states require low staff-child ratios and group sizes that minimize risk for children, staff and families, which surfaces a weighty observation:

Degregulation of child care in North Carolina could have a substantial negative impact on providers' ability to secure and afford the liability and abuse-and-neglect insurance they need in order to remain open and operating. Therefore, in seeking regulatory reforms to help expand the supply of accessible, affordable, high-quality child care in the state, it is necessary to consider and evaluate the impact of changes on the child care insurance landscape.



Conclusion

Expanding accessible, affordable, high-quality child care in North Carolina is a key part of increasing the state's labor force participation rate and bolstering economic growth. It is also important for the development of a strong, stable future state workforce, including future-generation leaders. Like North Carolina, states across the country are also struggling with child care supply challenges and no state has eliminated the challenge yet. Further, it is clear that there is not a simple, singular solution to North Carolina's child care crisis that has been brewing for decades, but instead that expanding accessible, affordable, high-quality child care to meet demand in the state will likely involve a myriad of policy changes and targeted investments, along with a willingness to loosen our hold on the status quo and support innovations.

Based on NC Chamber Foundation research, expanding child care supply in the state will require consideration of meaningful regulatory reforms, such as updating and streamlining North Carolina's QRIS, modifying building code and workforce requirements, and adapting licensing rules. Along with changes to child care rules and regulations that do not undermine safety or quality, moving the needle on child care supply in North Carolina will require additional investments that are targeted to help overcome major barriers and maximize return-on-investment, such as adjusting and streamlining reimbursement rates for providers serving subsidy-eligible families, enhancing child care jobs through competitive compensation, subsidizing property costs, and incentivizing new sources of financial support for high-quality child care services.

North Carolina has already taken meaningful actions during the last four years to try to shore up and expand the supply of quality child care, but more needs to be done as evidenced by complaints from families about few affordable choices, concerns from employers about work disruptions and unfilled jobs due to a lack of child care, long waiting lists at child care providers across the state, and, according to the state's "Early Care and Learning Dashboard," 450 fewer licensed child care sites since January 2020 (a decrease of eight percent), despite an infusion of federal one-time funding totaling more than a billion dollars.

The NC Chamber Foundation presents in this report an initial menu of potential solutions for consideration by North Carolina leaders, government decision-makers, and other child care stakeholders interested in collaborating to expand the state's supply of accessible, affordable, high-quality child care – both near- and long-term.

Potential Solutions to Help Expand Child Care Supply in NC

To help increase the number of high-quality licensed child care providers in North Carolina (centers, family child care homes, and religious-sponsored),

To help develop the qualified child care workforce needed to fully utilize capacity in high-quality licensed child care facilities and family child care homes and help expand supply,

To help enhance child care jobs and careers through competitive employee compensation,

To help make more high-quality child care options affordable for more North Carolina families,

The NC Chamber Foundation offers (in no particular order) the following potential solutions for consideration by state leaders, decision-makers, advocates, and other stakeholders:

- **Create a legislative task force or commission to examine the child care infrastructure – including QRIS, subsidy reimbursement rates, and other relevant rules and statutes – to develop innovative, sustainable solutions.**
- **Institute employer child care tax credit(s).**
- **Facilitate and fund subsidized child care for child care workers.**
- **Develop and fund capacity-building grant program(s).**
- **Ensure that reimbursement rates for providers serving low-income working families who qualify for child care subsidies cover the costs of program mandates and do not penalize rural or low-income communities.**
- **Reform the NC QRIS for licensed child care to expand the child care talent pool, diversify and increase the number of program options available to families, and reduce costs.**
- **Innovate and modernize child care workforce development to train employees more efficiently, effectively, affordably, and in less time.**
    - **Expand apprenticeship program.**
    - **Scale Child Care Academies across the state.**
    - **Reinstitute a statewide NC Early Childhood Credential equivalency/competency exam.**
    - **Implement an experience equivalency for the NC Early Childhood Credential.**
    - **Expedite development and implementation of a Child Care Workforce Registry.**
- **Develop association health plan(s) to offer child care providers, most of which are small businesses, more affordable options for offering an employer health insurance benefit for employees to help recruit staff and reduce turnover.**
- **Reform property-use regulations that restrict the provision of licensed child care services and/or encourage child care-friendly local land-use rules and ordinances through incentives and recognition.**
- **Lower property costs for licensed child care providers.**
- **Implement regulatory and/or tort reforms, along with new support for child care operators, to help preserve liability and other necessary insurances for child care programs and rein in cost increases that negatively impact families.**

Appendix A: Targeted States (28)

Context: North Carolina is a southern state with a Republican-controlled legislature that is ranked number three in numerical growth from 2022 to 2023, according to the U.S. Census Bureau.

Target Filters: Top-10 population-growth ranking, 2022-2023 (U.S. Census Bureau); Governed similarly (Republican-controlled state legislatures)

- Eight of 28 target states are top-10-growth states in terms of population growth between 2022 and 2023, according to the U.S. Census Bureau.
- 27 of 28 target states have state legislatures with Republican majorities, as of December of 2024, according to Statescape. (Virginia is the only exception.)
- 13 target states are "southern" states, according to the U.S. Census Bureau.

Southern States (13):	States not in the south (15):
Alabama	Alaska
Arkansas	Arizona (7)
Florida (2)	Idaho
Georgia (4)	Indiana
Kentucky	Iowa
Louisiana	Kansas
Mississippi	Missouri
Oklahoma	Montana
South Carolina (5)	New Hampshire
Tennessee (6)	North Dakota
Texas (1)	Ohio
Virginia (8)	South Dakota
West Virginia	Utah (10)
	Wyoming
	Wisconsin

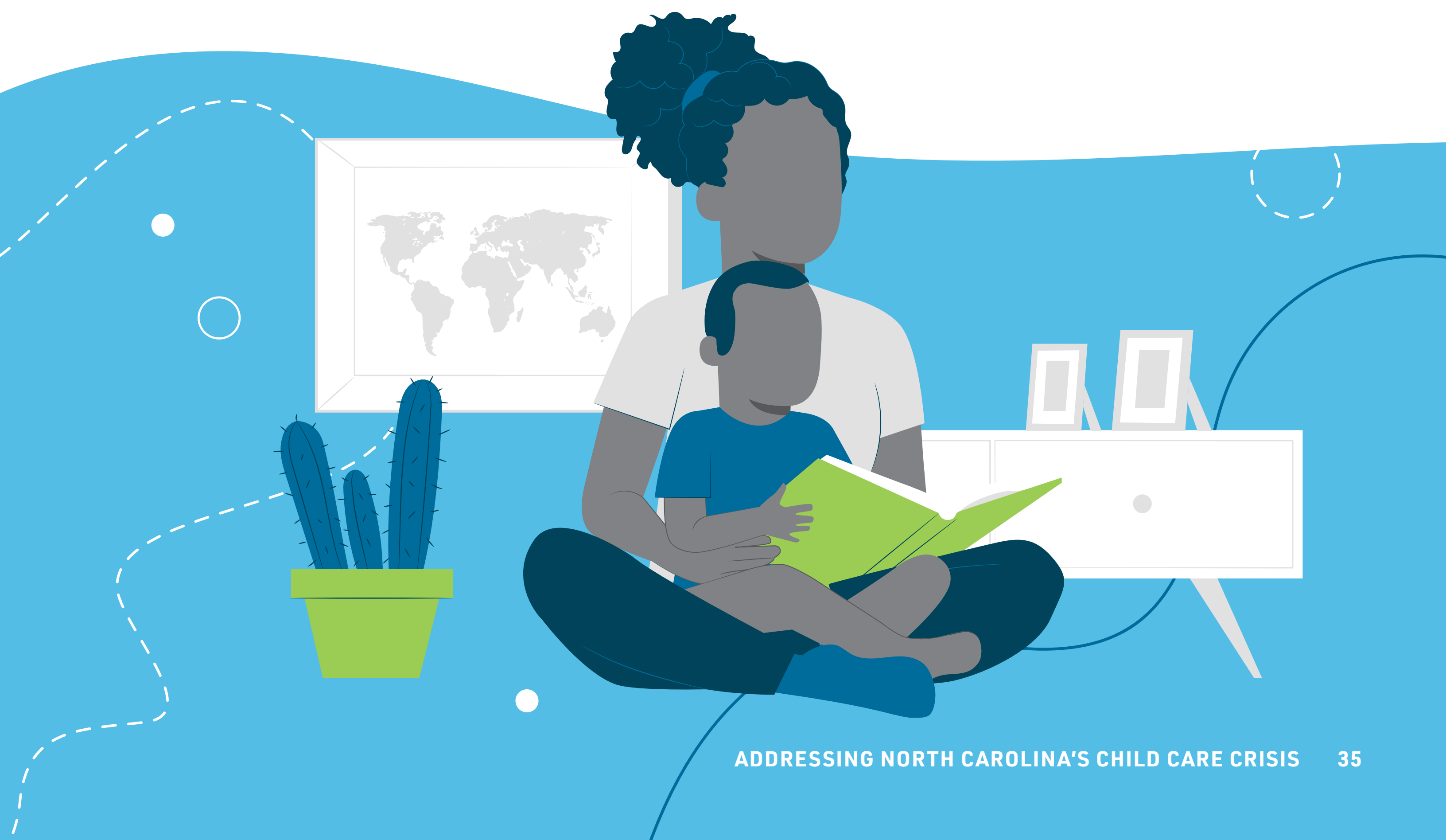
Numerals indicate "Top-10 States by Numeric Growth 2022 to 2023" by ranking.

Notes:

- Virginia is the only target state without a Republican-controlled legislature (Democrats control both chambers) but was included as a target because it is a border state to North Carolina and ranks number eight in population growth between 2022 and 2023.
- Colorado is the only top-10-growth state not included as a target because it is not a border or neighbor state to North Carolina or similarly governed.

Appendix B: Employer Child Care Tax Credits in 28 Targeted States

State	For start-up and/or purchase of a child care facility, or for construction, renovation or repair of a child care facility	For operation and maintenance of a child care facility	For payment to an eligible child care facility on behalf of employees or employee stipends/ payments for child care	For child care providers, specifically, for employer withholding taxes or capital expenditures
Alabama	✓	✓	✓	✓
Alaska		✓	✓	
Arkansas		✓		
Florida	✓	✓	✓	
Georgia	✓	✓	✓	
Iowa	✓	✓	✓	
Kansas	✓	✓	✓	
Louisiana	✓	✓	✓	✓
Mississippi	✓	✓	✓	
South Carolina	✓	✓	✓	
Virginia	✓			
West Virginia	✓	✓	✓	



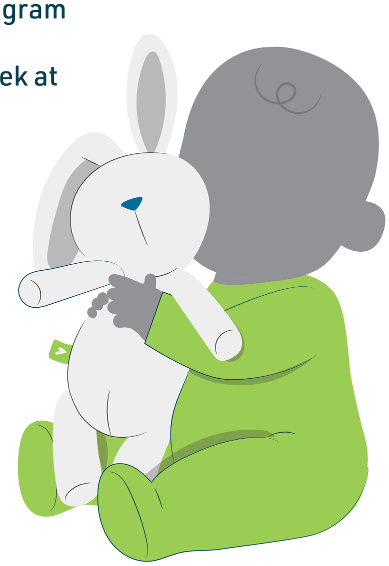
Appendix C: Subsidized Child Care for Employees of Child Care Programs

Arizona: With a $130 million investment of federal funding in 2023, the Arizona Department of Economic Security's Arizona Education Workforce Scholarship Program supported parents working in child care to make sure they had affordable child care options so they could join or remain in the child care workforce. The program included child care employees such as teachers, assistants, and other staff that provide direct care and ancillary support to children. Providers were reimbursed at the rate for subsidized child care.

Arkansas: In 2024, the Arkansas Department of Education applied for and received a waiver from the federal Administration for Children and Families, allowing them to consider workers in a licensed child care facility as categorically eligible for a subsidy, without regard to income.

Georgia: In 2023, the Georgia Department of Early Care and Learning (DECAL) used a portion ($5 million) of its federal American Rescue Plan funding to offer child care tuition assistance for child care employees to help child care programs recruit and retain staff. Eligible employees must work at least 30 hours per week as a lead teacher, assistant teacher, director, assistant director, floater, or school age staff in a licensed child care center or family child care home, or as a Georgia Pre-K teacher or assistant teacher. In the pilot program comprising 24 child care centers and six family child care homes, DECAL will pay 75% of the published child care tuition rates for each eligible staff member. Child care employers must cover a minimum of 15% of the published tuition rate, and employees pay 10%; however, employers can cover employees' part.

Iowa: Iowa's Child Care Assistance for the Child Care Workforce pilot program launched in 2023, and was extended for two years in 2024, at a cost of approximately $15 million. Individuals who work at least 32 hours per week at a licensed center or home-based provider and meet all eligibility criteria for subsidized child care (except household income) are eligible for a child care subsidy. The family is assessed a co-pay based on monthly income.



Kentucky: In 2022, at a cost of $10-$15 million, Kentucky enacted a change in the state subsidy system under which any employee working 20 hours or more per week in a licensed child care center or certified family child care (FCC) home is eligible for a child care subsidy, regardless of their household income.

Montana: In 2023, Montana invested $3 million in one-time funding from their federal PDG B-5 grant to implement the "Montana Child Care Retention and Recruitment" program, offering assistance for child care workers. To be eligible, at least one parent/guardian must be a staff member at a child care facility, and families who make under 250% of the federal poverty level (FPL) receive priority for assistance. Families will have no more than a $100/month co-payment, and providers receive full reimbursement as long as the child attends at least one day a month.

Oklahoma: Oklahoma extended its subsidized child care income waiver through September of 2024 for child care employees who it made "categorically eligible" for federal child care subsidies.

Indiana: In 2024, Indiana made child care workers currently employed by licensed child care programs categorically eligible for public subsidies under the Child Care and Development Fund and On My Way Pre-Kindergarten programs.

Appendix D: Employer-Focused Capacity-Building Grants

Idaho Workforce Development Council's "Child Care Expansion Grant program": $30 million to provide grants for start-up or expansion of child care programs. Grants aim to offset start-up costs for employers providing on-site/near-site child care; child care providers working with employer partners to expand the number of children served, and/or support with recruiting and training child care staff. ***Anticipated to created nearly 5,000 new child care slots.***

"Iowa Child Care Business Incentive Grant" program": $75 million to help employers expand access to child care for their employees. Grants may be used to address infrastructure projects on-site or for agreements between businesses and child care programs that create new child care slots. ***Over two years, nearly 200 projects have been awarded to create over 10,700 new child care slots.***

Iowa's "Child Care Challenge Fund": $35 Million-plus for regional and community projects to establish local child care facilities and increase the availability of quality, affordable child care for working Iowans. Grants support community projects to establish local child care facilities, awarding grant funding to match local investment. ***These grants have created more than 4,880 new child care slots across the state.***

"Kansas Child Care Capacity Accelerator Grant Program": $55 million in grants designed to advance the rapid development of additional child care slots statewide. Grantees are required to identify and secure private or community matching dollars to qualify for grants. Funds will primarily be used by communities and child care providers for operational start-up costs/needs, such as expanded staffing and purchasing furniture and equipment. ***Expected to create 4,211 new child care slots.***

"Missouri Innovation Start-up Grants": $60 million aimed at supporting new child care programs to address statewide workforce shortages. Potential applicants include child care providers, businesses, or hospitals that establish on-site or near-site child care programs. The amount is based on the amount of matching funds or in-kind contributions a business or community partner invests in the child care program, along with facility capacity and hours of operation. Rural communities and child care deserts are prioritized by the grant program. ***Expected to add 13,530 additional child care slots.***

Tennessee's "Non-Profit/Employer Workforce (NEW) Care Partnership Grants": $45 million for a three-year pilot to facilitate partnerships between nonprofit child care providers and non-profit, public, or for-profit employers to design and implement strategies that expand child care access and capacity to serve the partnering employer's workforce. ***Expected to create hundreds of new child care slots, although a number is not yet specified.***

"Texas Child Care Expansion Initiative": $75 million for child care providers opening or expanding operations, including in partnership with Texas employers. Child care businesses were eligible to apply for funding if they were serving families in a child care desert, operating in partnership with a company or consortium of companies to serve children of their employees, or expanding availability of infant care. Funding can be used to offset operational costs incurred during startup and the first few months of opening or expanding, but not on major renovations or construction. As of March 15, 2024, the state had approved over 1,000 applications, including almost 700 that were in partnership with a local employer. ***In total, close to $140 million dollars was approved from employers and nearly 52,000 new child care slots were proposed in the applications.***

Appendix E: What is North Carolina Already Doing About its Child Care Crisis?

Too few licensed child care providers	Difficulties recruiting and retaining qualified child care staff		High-quality child care too expensive
	Providers cannot raise enough revenue to offer competitive compensation without raising tuition/fees	Not enough qualified child care workers available in the marketplace or pipeline	
• “Expansion & Access” Grants ($20 million federal one-time funding, 2023) • Pilot business support services for family child care homes ($1.5 million, 2023) • Increased capacity for family child care homes (regulatory reform, 2023) • QRIS modernization (regulatory reform, 2023, and ongoing) • Increased rates for child care providers serving subsidy-eligible families (moved to 2021 “market rate” in 2023) • Reformed licensing rules to implement “EarlyEd Flex Plex” model to facilitate child care expansion (regulatory reform, 2023)	• “Stabilization Grants,” including grants specifically for “compensation” (approximately $1 billion federal one-time “stabilization” funding 2021-2024) • Increased rates for child care providers serving subsidy-eligible families (moved to 2021 “market rate” in 2023)	• QRIS modernization (regulatory reform, 2023, and ongoing) • Community College “credit for prior learning” (up to 9 credits) • CDA Credential equivalency to NC Early Childhood Credential with funding for 400 hours of free training (regulatory reform, 2023) • “Building Bright Futures” apprenticeship and pre-apprenticeship programs • Innovative “Child Care Academy” (Wayne, Johnston, Davie and seven other counties)	• “Tri-Share” Child Care Pilot ($1.8M for three “regional hubs” serving 15 counties, 2023) • Increased rates for child care providers serving subsidy-eligible families (moved to 2021 “market rate” in 2023) 

Actions delineated in the chart may cross more than one challenge category.