

Increasing Access to Child Care and Early Education

Recommendation

Invests over \$630 million and \$660 million in child care and early education in each year of the next biennium, respectively, to support families and strengthen North Carolina’s economy. Governor Stein’s Recommended Budget provides more than half a billion in tax credits in each year of the biennium, primarily targeting low- and middle-income working families with children. The budget increases subsidized child care rates to narrow the gap between families’ ability to pay tuition and the true cost to provide high-quality child care and early education. This budget curbs the closure of NC Pre-K centers that prepare 4-year-olds for lifelong learning by increasing reimbursement rates, adding new seats, and providing much-needed funding for those tasked with administering safe and high-quality programs. Funds also support the transition from Pre-K to kindergarten for over 3,500 children.

Table 1: Allocation of Funds to Increase Access to Child Care and Early Education

	Agency	FY2025-26	FY2026-27
<i>Raise Provider Wages and Increase Program Quality</i>			
Subsidized Child Care for Low-Income Families	DHHS-DCDEE	\$87,900,000 R	\$87,900,000 R
NC Pre-K Expansion	DHHS-DCDEE	\$26,750,000 R	\$53,500,000 R
Wrap-Around Summer Care and Learning	DHHS-DCDEE	\$10,000,000 R	\$10,000,000 R
Increase Child Care Options for State Employees	DOA	\$1,000,000 NR	-
<i>Totals for Recurring and Nonrecurring</i>		<i>\$124,650,000 R</i>	<i>\$151,400,000 R</i>
		<i>\$1,000,000NR</i>	<i>\$0NR</i>
Subtotal		\$125,650,000	\$151,400,000
<i>Tax Credits</i>			
Child and Dependent Care Tax Credit		\$59,000,000 R	\$60,300,000 R
Child Tax Credit		\$23,000,000 R	\$23,000,000 R
Working Families Tax Credit		\$426,800,000 R	\$425,800,000 R
Subtotal		\$508,800,000	\$509,100,000
Grant Total		\$634,450,000	\$660,500,000

Recommendation Detail

One key contributor to child care scarcity in North Carolina is our child care workforce. We do not have enough spots for families who need them in part because child care teachers earn too little for the positions to be attractive to workers. The child care subsidy waitlist grew by over 270% in the last year, from 3,425 children in January 2024 to 12,755 in January 2025.¹ At the same time, 7.9% of North Carolina’s child care programs have closed since February 2020, including 81 net closures in 2024 alone.² Meanwhile, early childhood educators earn an average of just \$29,100/year (\$13.99/hour), less than the 2025 federal poverty level for a family of four.³

¹ [N4DHHS](#): February 2024 and March 2025 Expenditure Reports

² [EducationNC](#): Child care closures accelerated before state funding reached providers”

³ [First Five Years Fund](#): “2024 State Fact Sheed: Child Care & Early Learning in North Carolina”

This budget makes child care more affordable for families and starts to shore up the state's supply by increasing child care subsidy rates based on the 2024 Market Rate Survey. It also creates supply and supports state employee recruitment and retention by renovating underutilized state facilities. When renovations are complete, these buildings will house licensed child care centers that will provide affordable care for the children of state employees.

The funding the state currently provides for NC Pre-K's almost 30,000 slots supports only about half the cost for providers to operate. Providers cite this underfunding as one reason for either not opening new slots or leaving the program altogether.⁴ Since March 2020, NC Pre-K experienced a 4% net loss of sites, with 48 in total.⁵

NC Pre-K participants experience increased literacy, math, and socio-emotional skills at kindergarten entry, and they sustain these gains throughout elementary school. This budget invests in young children by raising NC Pre-K slot reimbursement rates in all settings, raising administration rates, and adding new seats. It further supports these students and their families by providing NC Pre-K Summer Learning Programs after children complete NC Pre-K but before they begin kindergarten.

Child care barriers contribute to 34% of mothers and 20% of fathers leaving the workforce,⁶ costing the North Carolina economy \$3.5 billion each year.⁷ Care is too expensive for families, with center-based infant care in North Carolina costing on average \$12,251 per year, or 11% of the state median income for a married couple.⁸

This budget decreases families' tax burden and increases tax credits to help families stay in the workforce and afford child care and other basic needs. A new refundable Child and Dependent Care Tax Credit, worth up to \$600 for the average family of four, helps North Carolina parents with child care costs. A new refundable Working Families Tax Credit (WFTC), equal to 20% of the federal Earned Income Tax Credit, supports households earning up to \$68,700 who are disproportionately affected by child care costs. And the existing child tax deduction is converted to a refundable Child Tax Credit (CTC) to expand assistance to lower-income families. Since all three credits are refundable, they ensure that even families with minimal state tax liability can receive the full benefits.

Expected Impact

Investments in these priorities are expected to have the following impacts:

- Increases subsidy rates for 3-, 4-, and 5-star providers in 95 of 100 North Carolina counties. Higher rates will help more families afford care and keep providers open.
- Increases NC Pre-K reimbursement rates by 20% in all settings, raises administration rates from 4% to 8% to help program operators maintain quality and safety, and adds 1,000 new seats by the end of the biennium.
- Helps 3,500 families access Summer Learning Programs after their children graduate from NC Pre-K, ensuring parents do not miss work because of child care needs, while providing children with enriching learning opportunities during the summer before kindergarten.

⁴ [NIEER](#): Barriers to Expansion of NC Pre-K: Problems and Potential Solutions

⁵ [NC Health News](#): "Is NC Pre-K dying? Providers say low funding makes it hard to keep up."

⁶ [McKinsey & Company](#). "The childcare conundrum: How can companies ease working parents' return to the office?"

⁷ [Ready Nation](#). "\$122 Billion: The Growing, Annual Cost of the Infant-Toddler Child Care Crisis"

⁸ [Child Care Aware](#): "Child Care Affordability in North Carolina"

- Provides an average \$303 per year Child and Dependent Care Tax Credit to approximately 214,000 households – nearly one in five families with children.
- Provides \$419 Working Families Tax Credit, on average, to approximately 686,000 households. About 16% of North Carolina households will benefit from this credit that can support essential needs like child care, housing, food, transportation, and education.
- Extends CTC benefits to nearly 200,000 new families and increases the existing benefit for nearly 700,000 families already receiving the credit. A total of almost 21% of North Carolina households will benefit from this credit.