NC Child

The Voice for North Carolina's Children

2025 CHILD CARE FINANCE REPORT

Building Blocks & Bottom Lines:

THE FINANCIAL REALITIES OF OPERATING A CHILD CARE BUSINESS IN NORTH CAROLINA

Executive Summary

Child care providers across North Carolina are facing growing financial instability as they navigate the end of federal relief funding and increasing operational costs. This report explores how private child care programs, including center-based, family child care homes, and faith-based providers, are working to sustain their programs amid rising tuition pressures, workforce shortages, and inadequate public funding. Through interviews with providers across the state, we document the strategies they use to manage limited resources, the trade-offs they face, and the long-term risks to program sustainability.

Providers consistently reported that tuition and subsidy payments fall short of covering the true cost of care. Many described foregoing salaries, using personal credit, and absorbing unexpected expenses without access to emergency funds. While stabilization grants provided temporary relief, their expiration has left programs in a compromised position. The consequences include rising turnover, reduced enrollment capacity, and growing difficulty in maintaining quality. Despite these challenges, providers remain committed to serving children and families, often prioritizing affordability over financial sustainability.

Before the stabilization grants ended, providers surveyed across the state anticipated reducing operations or closing[1] due to funding issues. The vast majority—over 80%—anticipated raising tuition and other charges such as registration, late fees, and food costs, which they worried could reduce access for families.

This report explores the real costs of providing child care in North Carolina today, from fixed overhead and wages to administrative burden and unexpected expenses. Through financial profiles, provider stories, and budget breakdowns we shed light on how early childhood programs piece together funding from public and private sources and where the gaps remain. Understanding the current child care finance landscape is essential for building long-term solutions that support both family affordability and provider stability.

To support a stable child care system, we offer several policy recommendations, including the creation of a statewide subsidy floor, subsidized child care for child care workers, property tax exemptions for providers, and strategies to reduce liability insurance costs. These targeted investments would help address funding gaps, support the workforce, and strengthen North Carolina's child care infrastructure. As provider stories throughout this report make clear, meaningful action is needed to ensure that child care remains accessible, high quality, and financially viable for years to come. The insights in this report aim to inform policymakers, funders, and community stakeholders as they consider what it truly takes to sustain a high-quality child care system in North Carolina.

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Acknowledgement

We extend our deepest gratitude to the providers who generously participated in this study. By sharing your budgets, insights, and personal stories, you not only made this research possible but also enriched it with the authenticity of your experiences. Your dedication to serving North Carolina's families and ensuring children have access to quality care and education is both inspiring and invaluable. This work is a testament to your unwavering commitment to the communities you support.

Key Terms

- **Center-Based Facility:** Center-based facilities are formalized institutions where multiple educators care for and educate groups of children in a dedicated location.
- **Division of Child Development and Early Education (DCDEE):** The division within the North Carolina Department of Health and Human Services that oversees the licensing, regulation, and monitoring of child care programs, administers early childhood initiatives, and ensures compliance with state standards to promote safe, high-quality care and education for young children.
- **Facility:** A facility refers to any licensed early childhood education setting in North Carolina, including both center-based and family child care facilities.
- **Faith-Based Facility:** For the purpose of this report, a religiously affiliated facility that chooses not to participate in the Quality Rating and Improvement System and adheres to basic health and safety regulations pursuant to G.S. 110.
- **Family Child Care Home:** A family child care home refers to a small, home-based early care and education setting in North Carolina where care and education are provided to a limited number of children, typically in a caregiver's private residence.
- **Quality Rating and Improvement System (QRIS):** QRIS, or Quality Rating and Improvement System, is a state-managed program that evaluates and rates the quality of early learning environments, usually through a star-based system. These ratings are publicly available to help families make informed childcare choices. Nearly every state uses QRIS; in North Carolina, programs earn 1–5 stars based on state standards. Subsidy rates are linked to these ratings, with higher-rated programs receiving greater funding.

Background

In communities across North Carolina, child care programs are facing an urgent and complex financial reality. Even as families struggle to find affordable care, many providers are grappling with the high costs of operating a safe, stable, and high-quality early learning environment. These financial pressures are not new, but they have been amplified by the COVID-19 pandemic and the subsequent end of federal funding sources.

For years, programs have operated on razor-thin margins. The pandemic temporarily masked some of these challenges with federal relief, including the North Carolina Child Care Stabilization Grants, which offered critical support for wages and operational costs. However, as these funds expire many providers face difficult decisions about tuition, staffing, and sustainability—decisions that many had already faced before federal relief.

THE IMPACT ON CHILDREN

High-quality early learning environments have profound positive effects on a child's developing brain. Research shows that 90% of a child's brain develops before age five, when everyday moments and interactions help shape how they learn, grow, and thrive throughout life.[2] This emphasizes the importance of high-quality early childhood education that encourages age-appropriate early interactions and experiences and promotes healthy development, and these programs pay off. Children who attend high-quality early care programs have better short- and long-term outcomes such as improved school readiness, higher graduation rates, and better economic and employment opportunities as adults. Other research shows that high-quality early learning programs can reduce the likelihood of special education placements[3] and improve students' scores on third grade reading and math assessments.[4]

The positive impacts of high-quality early childhood education on children's development create a massive return on investment over a child's lifetime. Children in high-quality early learning programs complete nearly a year more of schooling, have a 44% higher graduation rate, are 46% less likely to be incarcerated, and earn 42% more as adults. Every dollar invested in these programs yields a $12 return, driving long-term economic stability.[5] This return on investment dwarfs the return seen from other education programs like K-12 education and workforce training programs. Accessible, affordable child care and the economic sustainability of providers are critical for the stability of working families to gain meaningful employment and educational opportunities, as well as for children's academic outcomes and overall well-being.[6]

THE ECONOMIC IMPACT

The financial sustainability and accessibility of child care programs have a significant impact on the economic health of working families across the state. When centers close, many parents face employment disruptions or are forced to leave the workforce entirely. Survey data from a 2024 child care economic impact study indicated that 35% of parents who experienced employment disruptions in the past year reported leaving the workforce as a direct result of child care challenges.[7]

The lack of affordable and accessible child care not only harms families' ability to earn steady wages and support themselves but also has broader implications for the state's economy. When parents are pushed out of the workforce due to child care costs and access issues, it can result in billions of dollars in lost economic activity and state tax revenue. The U.S. and NC Chamber Foundations and NC Child's economic impact analysis found that child care issues cost North Carolina's economy $5.65 billion per year, including more than $1.3 billion per year in state revenue collections. A follow up study conducted by NC Child and the North Carolina Department of Commerce found that solving child care issues for North Carolina parents could result in an increase of up to $7.5 billion to the state's gross domestic product and add up to 60,000 jobs to our economy.[8]

Lost economic opportunities in North Carolina from child care issues are driven by the financial instability of child care providers across the state. Many child care providers are being forced to shut down due to financial instability and increasing overhead costs of running a child care business. This affects their financial stability as business owners and hampers their ability to provide essential support to working families in their communities.[9]

KEY COMPONENTS OF NORTH CAROLINA'S MIXED DELIVERY SYSTEM

North Carolina has a mixed-delivery child care system that combines both public and private services. Managed by the Division of Child Development and Early Education (DCDEE) within the North Carolina Department of Health and Human Services (NCDHHS), this system encompasses licensed private centers, family child care homes, and faith-based centers, which will serve as the focus of this report.

For their revenue and operations, these providers primarily rely on private parental fees and subsidy payments. Until recently, many also received support from pandemic-related Child Care Stabilization Grants, which helped private providers manage closures, operational expenses, staffing adjustments, and facility costs during the COVID-19 pandemic. This overview summarizes the three types of provider facilities included in the participant provider pool for this report: Center-Based Facilities, Family Child Care Homes, and Faith-Based Child Care facilities.

CENTER-BASED CARE PROGRAMS

As of April 2025, North Carolina had 4,194 licensed child care facilities serving children from birth through school age.[10] These centers must meet licensing, ratio, and safety regulations set by DCDEE. They offer various programs, including preschool, infant/toddler classrooms, and extended after-school care for school-aged children. Revenue for these facilities comes from multiple sources, including subsidies and state funding through the NC Pre-K program, North Carolina's public program for four-year-olds.[11]

FAMILY CHILD CARE HOMES (FCCH)

Another common form of child care in North Carolina is Family Child Care Homes (FCCH), which offer child care services in a residential setting. In April 2025, North Carolina had 1,093 FCCH programs operating in the state.[11] FCCHs provide a vital support system for working families seeking affordable options during non-traditional hours. For example, parents who work second or third shifts in vital North Carolina industries like manufacturing or health care might find FCCHs a more flexible licensed care option than centers. FCCHs are defined by their ability to care for more than two children, but no more than nine, and are licensed by DCDEE. These facilities provide a home-like atmosphere, different from the institutional feel of traditional child care centers.

Moreover, they improve accessibility, especially for rural communities that are already struggling with child care accessibility, by providing more opportunities for low-income families through flexible tuition plans and rates lower than those of market-based child care options. In 2020, the North Carolina Division of Child Development and Early Education reported that 1,407 children received care in family child care homes during non-traditional work hours outside of school hours, from 6 p.m. to 11 p.m. In comparison, 809 children were cared for in centers during non-traditional work hours.[12]

FAITH-BASED CENTERS

Faith-based child care centers are sponsored by religious institutions such as churches or synagogues and are regulated by DCDEE. These centers may be classified into two categories: QRIS-rated or non-QRIS.

According to legislation, religiously affiliated centers can function under the provisions established by North Carolina General Statutes 110-106. Faith-based centers may elect to pursue star ratings under the state's QRIS rating system, however those centers that choose not to participate will still adhere to the basic health and safety regulations stipulated for child care centers under G.S. 110.

CHALLENGES FACED BY NORTH CAROLINA'S CHILD CARE SECTOR

Since 2020, North Carolina's child care sector has faced significant challenges, most notably a decline in licensed facilities and considerable financial strain on providers as they strive to remain open amid rising economic and staffing pressures. The winter of 2020 marked a 5.3% decrease in licensed child care programs across the state. Additionally, the rate of closures has doubled from 2020 to 2023, primarily due to the end of child care stabilization grants. Sixty-two out of 100 counties have reported a net loss of licensed programs, with both urban and rural counties experiencing closures. This downturn has intensified in recent years, as evidenced by the net loss of 41 programs in just the first quarter of 2024.[9]

62 of the 100 *counties in NC have reported a net loss of licensed programs*

Family Child Care Homes (FCCHs) have been hit the hardest, accounting for 85% of net program losses.[9] Since 2020, five counties have entirely lost their FCCHs, underscoring the fragility of these smaller operations. Urban counties, particularly Durham and New Hanover, have experienced more pronounced declines, recording net losses of 14.3% and 13.2%, respectively. They account for 23% of programs in the state and 2.5% of enrollment in licensed child care settings.[9]

Family-owned child care providers function within a distinctly different context compared to school-based pre-K or K–12 environments. These providers often assume dual roles, both as educators and entrepreneurs, balancing the responsibilities of early childhood education while concurrently managing small businesses.

PUBLIC SUPPORTS FOR PROVIDERS

To maintain operations and continue providing essential services to families, many child care providers utilize public supports to help offset the high cost of care. These supports include state subsidies for eligible families, federal food reimbursement programs, and emergency grants, which enable providers to serve children while often absorbing financial challenges themselves. While these resources are critical, they often fall short of covering the true costs of delivering high-quality care, leaving providers to navigate persistent financial challenges. This section outlines key public programs, including the Child Care Assistance Program, the Child and Adult Care Food Program (CACFP), and the temporary Child Care Stabilization Grant, that play a vital role in supporting providers, sustaining staff, and ensuring access for working families.

While the previously noted public programs are the focus of this study, it is important to note the other public programs that support providers.[13] The WAGE$ Program provides biannual supplements of $450–$6,250 based on education and experience, funded at $65 million annually.[14] AWARD$ targets infant and toddler educators with annual supplements of $2,000–$4,000. These programs have proven effective in retaining child care workers, and, as a result, ensuring facilities maintain capacity and families maintain access to the care they need to work. In FY 2024, WAGE$ and AWARD$ participants had a 15% turnover rate, less than half the 38% rate observed across the child care sector in the state overall.[15] Professional development support is offered through the T.E.A.C.H. Scholarship Program, which covered up to 90% of tuition for 2,163 educators in 2023–2024 and provided bonuses of $500–$2,000. Scholarship recipients had high retention rates: 93.9% for associate degree earners and 97% for bachelor's degree earners.[16]

CHILD CARE SUBSIDY

North Carolina's 2023 Child Care Market Rate Survey of 3,283 facilities found that 75.7% reported using child care subsidies to help cover the costs of serving eligible children, making subsidies the most common form of support providers utilize to continue offering essential care. Participation in the subsidy program was especially prevalent among home-based providers (81%), compared to 73.5% of child care centers.[17] In North Carolina, child care subsidy rates are based on market rates, which reflect the typical fees charged to families for care, rather than the actual cost of care. These market-based rates are intended to represent what families in each community can afford, rather than what is needed to sustain high-quality programming.[17]

Currently, state subsidy rates are set in the 75th percentile of what providers believe families can pay in their county.[17, 18] The disparity between market rates and actual costs creates financial strain for providers, who often absorb shortfalls by offering low wages to staff. Additionally, since subsidy rates fall below the cost of care, providers may be disincentivized from accepting families with subsidized care.[18]

In May 2025, North Carolina's child care subsidy program (formally called the Child Care Assistance Program) served nearly 58,000 children.[18] The North Carolina General Assembly appropriates funding for the program, while the North Carolina Department of Health and Human Services (NCDHHS) oversees its administration. Families rely on child care subsidies to work and provide for their families. Of families served by the program in 2020, 87% received subsidies to support their participation in the workforce, 2% received subsidies to participate in job training or educational programs, and 4% received subsidies for a combination of both.[17]

Access to affordable child care strengthens the state's economy by increasing the earning potential and workforce participation of families. North Carolina determines market rates for each of its 100 counties based on provider type (center-based vs. home-based) and age group (infants, toddlers, preschoolers, and school-aged children). This leads to more than 3,500 different child care subsidy rates across the state, despite the cost of providing care not varying that much across counties. A growing number of providers, researchers, and policymakers argue that the current market-based model is unsustainable for maintaining a robust and equitable child care system. This tension is particularly acute in rural areas, where families face a limited supply of high-quality child care and providers operate on fragile margins.[19]

THE CHILD AND ADULT CARE FOOD PROGRAM (CACFP)

Another prevalent form of public support for child care providers is the participation in the Child and Adult Care Food Program (CACFP), which provides funding for food costs to child care providers who serve income-eligible children. Approximately 60% of providers in North Carolina receive reimbursements to help offset food costs for enrolled children.[17, 20] This program is federally funded and supports child care providers in offsetting the costs of serving nutritious meals, thereby reducing expenses for families and eliminating the need for families to send children with packed food or to pay for meals included in their tuition.

Nationwide, participation in this program among child care providers has decreased by 46% over the past 25 years.[21] Common barriers to participation cited by family child care providers include administrative burdens and requirements, as well as low reimbursement rates. Survey findings from a Family Child Care participation study indicate a correlation between the decline in family home care providers since 2019 at the national level and the decrease in program participation.[21]

THE CHILD CARE STABILIZATION GRANT

The COVID-19 pandemic worsened already high turnover rates in early care and education settings, prompting many states to use American Rescue Plan Act (ARPA) funds to support teacher recruitment and retention. In North Carolina, Gov. Roy Cooper responded by announcing an initial $805 million investment in the early childhood workforce in October 2021. The program aimed help early care and learning programs with recruitment and retention by improving wages and benefits for teachers and increasing access to consistent, reliable care for working families in the state. Although the Stabilization Grant was originally set to expire in September 2023, the North Carolina General Assembly extended the program three times: in September 2023, June 2024, and November 2024.

As of March 2025, more than $1.1 billion has been invested in the Stabilization Grant program, supporting over 4,000 child care facilities and benefiting more than 49,000 staff members.[22] The grant officially ended in March 2025.

STAFF TURNOVER AND PROGRAM STABILITY

High turnover remains a defining challenge in early childhood education, driven largely by financial instability and low compensation. Many educators leave the field within their first few years, and a significant share rely on public assistance to make ends meet. As noted above, North Carolina's child care sector had a turnover rate of 38% in 2023, meaning 38% of the total child care workforce left their jobs in the 12 months prior. Conversely, the state's turnover rate across the entire workforce in 2023 was just 4%.[23] This instability not only affects individual educators but also undermines the sustainability of child care programs, placing strain on staffing, budgets, and classroom quality.

WHY PROVIDERS ARE LEAVING

High turnover continues to be a defining challenge within the early childhood education workforce. Recent studies found that annual turnover rates can exceed 30%, with first-year teachers nearly twice as likely to leave within eight months compared to those with three or more years of experience.[24] Similarly, almost 40% of early childhood educators leave the field within five years.

nearly 40% of early childhood educators leave the field within five years

Low wages and financial instability among child care workers are a major contributor to high turnover rates.[25] In North Carolina, the average hourly wage among child care workers was just $14.20 in 2024, less than half the average hourly wage rate across all occupations in the state. Child care workers earn less than preschool teachers, retail sales workers, and food service employees in the state.[26] Nationwide, over half of child care workers rely on public assistance programs such as SNAP, TANF, and Medicaid.[27] In North Carolina, 43% of child care workers depend on these same programs.[27] In other words, by not investing in our child care workforce on the front end, the state is forced to pay for public benefits and associated administrative costs as child care workers cannot sustain themselves and their families on the wages they earn. When educators struggle to meet their basic needs, retaining them in the field becomes increasingly difficult. When teacher retention is at risk, so too is families' access to high-quality child care.

TURNOVER COSTS AND PROGRAM STABILITY

The financial burden of turnover affects not only individual educators but also the child care programs that employ them. Each instance of turnover costs centers between $2,000 and $5,000 due to expenses related to recruitment, hiring, and training.[28] High turnover makes it difficult for programs to maintain consistent staffing, meet licensing requirements, and provide stable, high-quality learning environments.[29] Some programs spend up to 20% of their annual budgets replacing staff, which limits their ability to invest in professional development and classroom materials.[30] This instability often forces centers to rely on less-experienced or unqualified staff, which can compromise classroom quality and hinder child development.[31] Additionally, other studies have found that high-turnover centers reported greater challenges in maintaining staff morale and sustaining effective instructional practices.[32]

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Our Objective

This study aims to explore how private child care providers in North Carolina are navigating the post-pandemic financial landscape, particularly in the wake of expiring stabilization grants. As working families struggle to find affordable care, providers face a funding crisis that puts the future of their operations at risk. The study looks at how three types of providers—family child care homes, private center-based programs, and faith-based providers—put together and use various funding sources, such as parent fees, subsidies, and public-private partnerships. Through provider stories, we sought to understand how these early childhood professionals deal with financial pressures, adapt their operations, and push for sustainability in the North Carolina child care sector.

Additionally, NC Child sought to understand how child care providers' budgets limit their ability to invest in their programs, hire additional staff, and expand capacity. To do this, we collected budgets (profit and loss sheets) from 14 child care providers in North Carolina which detailed their revenue sources, expenses they incur providing services to families, and thin profit margins (or losses) they operate with. As noted in the methodology section, these budgets are likely not generalizable to the entire population of child care programs in the state, but they do offer a snapshot into the financial complexities of operating a child care facility and the difficult decisions providers must make to run their businesses effectively.

Budget Analysis

PRIVATE PAYING PARENT TUITION TYPICALLY PROVIDERS' LARGEST REVENUE SOURCE

Of the child care programs that shared detailed budgets with NC Child staff, their revenue sources followed a similar pattern. Ten child care programs shared budget information detailed enough to discern sources of revenue. As might be expected, tuition typically represented the largest source of income for both center-based and home-based child care providers. The percentage of total revenue generated from private paying parent tuition ranged from 1% to 98% and averaged about 60%.

The reliance on private tuition underscores the impact increased state investment can have on North Carolina's child care industry. Providers must balance the rates they set for parents with how much parents can actually pay. If a provider wants to expand capacity through capital investments or hiring new staff, they have to bring in more revenue. Oftentimes, the most readily available revenue source is parent tuition. But program operators have to consider how rate increases will impact their enrollment rates, as any increase in rates might price some parents who already struggle to afford care out of the market. Therefore, additional state dollars—through increased subsidies, covering the cost of child care for employees, property tax exemptions, or some other funding mechanism—allow providers to bring in additional revenue without further pricing parents out of the market.

PERCENTAGE OF TOTAL REVENUE GENERATED BY CHILD CARE PROGRAMS BY INCOME CATEGORY

	Private Paying Parent Tuition	Subsidy Payments	Head Start/ Early Head Start	Stabilization Grant	NC Pre-K	Federal Food Program	Other Income*
Region 3	98.0%	-	-	-	-	-	2.0%
Region 3	96.3%	3.7%	-	-	-	-	-
Region 4	87.2%	9.8%	-	-	-	2.9%	0.1%
Region 3 (FCCH)	83.0%	-	-	10.7%	-	6.3%	-
Region 3	82.9%	8.2%	-	-	-	8.9%	-
Region 3 (FCCH)	66.3%	18.1%	-	-	-	18.1%	-
Region 4	42.5%	44.7%	-	-	6.9%	-	5.9%
Region 1	14.5%	76.2%	-	-	-	9.3%	-
Region 1	14.2%	3.7%	59.8%	1.4%	3.3%	2.7%	14.9%
Region 3	1.0%	13.5%	42.1%	-	35.6%	7.8%	-

SOURCE: NC Child analysis of budgets shared by child care providers.
*Other income includes contributions, foundation grants, smaller publicly funded grants and programs (e.g., WAGE$, local Smart Start supplements, etc.), and other earned income.

As shown in the table above, providers with lower reliance on tuition from private paying parents have higher participation in public programs like Early Head Start, child care subsidies, or NC Pre-K. While these providers would benefit the most from increased state investment in programs like child care subsidies, other programs that serve a lower number of children with subsidies would also see a substantial benefit.

For example, a Region 4 provider receives about 10% of their total revenue from subsidy payments. If North Carolina's child care subsidy rate policy set a statewide rate floor for providers, this program would receive $395 more per month for serving an infant with a child care subsidy or $4,740 in additional revenue per infant per year. By serving just five infants with child care subsidies at this center, the rate floor would enable this Alamance program to bring in about $24,000 more per year, nearly the average annual wage of a child care worker in the county.

STAFF EXPENSES, FACILITY COSTS TYPICALLY PROVIDERS' LARGEST EXPENSE CATEGORY

From the 14 budgets shared with NC Child, child care providers' expenses can be grouped into four broad categories: staff costs, facility costs, program costs, and administrative costs.

- **Staff costs** include payroll and wages, payroll taxes, health insurance and other benefits (if applicable), bonuses, training costs, and other expenses to support child care providers' workforce.
- **Facility costs** include rent or mortgage payments, property taxes (if applicable) custodial services, cleaning supplies, utilities, maintenance costs, property insurance, and other expenses to foster safe learning environments.
- **Program costs** include educational supplies, food and milk, vehicle and transportation expenses, playground equipment and maintenance, curriculum materials, and other expenses to create high-quality, developmentally appropriate learning environments.
- **Administrative costs** include liability and business insurances, office supplies, professional services, charges and fees, subscriptions, and other expenses to effectively operate the business.

Providers' largest expense depends partially on the type of facility they operate. Center-based providers whose budgets NC Child analyzed consistently spend most of their revenue on staff expenses, ranging from 40.6% to 87.3% of total revenue with an average of 68.1% of total revenue spent on salaries, wages, and other employee costs. FCCH providers typically do not employ additional staff. The operator often runs the program on their own. Instead of wage costs, home-based providers have much larger facility costs, ensuring their homes meet regulatory requirements that create safe environments for children.

CHILD CARE PROVIDER COSTS BY CATEGORY AS PERCENTAGE OF TOTAL REVENUE

	Staff Costs	Facility Costs	Program Costs	Administrative Costs
Region 1	87.3%	6.8%	11.5%	3.2%
Region 4	84.7%	4.5%	10.5%	14.1%
Region 4	84.0%	4.8%	6.5%	4.6%
Region 1	82.5%	7.8%	9.7%	4.3%
Region 3	81.3%	2.0%	10.5%	0.8%
Region 3	65.3%	15.3%	9.0%	3.3%
Region 4	63.2%	12.3%	5.9%	1.3%
Region 6	61.4%	17.5%	6.1%	6.3%
Region 3	58.2%	11.5%	6.7%	1.5%
Region 3	55.5%	30.5%	6.4%	3.5%
Region 4	52.6%	15.2%	NA	NA
Region 3	40.6%	23.2%	6.6%	12.7%
Region 3 (FCCH)*	38.9%	35.5%	15.8%	9.7%
Region 3 (FCCH)**	0.0%	55.3%	16.2%	29.2%

SOURCE: NC Child analysis of budgets shared by child care providers.
*Region 3 FCCH's staff costs represent profit earned after operational expenses, effectively the provider's wage.
**This Region 3 FCCH's budget showed that the revenue they generate only covers operational expenses, and, in fact, they operate at a loss if you count the cost of their health insurance.

For centers, facility costs are often the next largest expense category after staff. Depending on a provider's county, rent and/or mortgage costs and associated taxes can be particularly burdensome. One Region 3 provider's budget indicates that they spend nearly $500,000 per year on one building and almost $50,000 per year on property taxes.

Other centers business models and partnerships allow them to reduce facility costs. The faith-based Region 4 center does not pay rent or mortgage on their facility since they are connected to the church building. This enables them to put more money into other parts of their program, which in this case allows the program to offer staff higher wages and health insurance benefits, which is not a standard benefit in many child care jobs. Similarly, another Region 3 provider shares an administrative structure across several child care programs, which minimizes facility costs and allows more funds to be spent on staff expenses and program enhancements.

What We Learned

This section presents key themes from interviews with 12 child care providers across North Carolina. Participants represented a range of program types and geographic regions, offering valuable insights into the financial realities, staffing challenges, and decision-making processes shaping early care and education today. These qualitative findings highlight shared experiences as well as variations across settings. Additional details about participant selection, regional breakdown, and data analysis can be found in the methodology section at the end of the report.

TUITION DOES NOT COVER THE TRUE COST OF CARE

Across interviews, providers consistently emphasized that tuition alone does not cover the full cost of delivering high-quality early childhood education. From staff wages to classroom materials and facility expenses, the true cost of care far exceeds what most families can reasonably pay. As a result, providers must navigate difficult financial decisions while striving to maintain quality of care, support their workforce, and keep care accessible to the families they serve. This also restricts the capacity providers can provide, as the income they receive from filling a slot does not match the cost of inputs to provide care. The imbalance can result in providers serving more older children in the three- and four-year-old age groups, as these are the slots providers typically generate the most revenue from. Conversely, providers tend to serve fewer infants or none at all, as the costs associated with providing infant care are often the most costly.

REIMBURSEMENTS FROM PUBLIC SUPPORT PROGRAMS DO NOT ADEQUATELY COVER THE EXPENSES OF PROVIDERS

Many providers highlighted that despite recent increases to the market rate for child care subsidy reimbursement, the funding still falls short of covering the true cost of care. Directors reported that the reimbursement rates often fail to reflect rising expenses such as staff wages, classroom materials, and facility maintenance. This gap between reimbursement and actual costs makes it difficult for providers to sustain high-quality services or invest in workforce stability. This theme was especially prominent for center-based providers, particularly in rural communities.

"If you're talking about cost per child, per day, it just doesn't add up. Even in our five-star programs, we're not getting full reimbursement for most of the children on subsidy." – Center-Based, Region 1

When asked about participation in the Child and Adult Care Food Program (CACFP), providers who receive reimbursements often noted that the funds do not fully cover the cost of providing nutritious meals. This concern was especially pronounced among programs serving a high percentage of children receiving child care subsidies, as CACFP reimbursement levels are tied to subsidy enrollment. One provider, whose enrollment is 80 percent subsidy-based, shared that while CACFP funding helped support food costs and partially covered the salary of a cook, it ultimately fell short. As a result, the program could no longer afford to retain the cook, and the Director now steps in to prepare meals when needed.

"We have had to adapt our menu to things that we can afford to feed them...if you take the whole meal that we cooked that day and divide it by how many children we're feeding, it's still more than what they're reimbursing us." – Center-Based, Region 1

WHY THIS MATTERS

In North Carolina, state regulations require child care providers to offer children nutritious meals and snacks every day. Providers often have to absorb the costs of meeting these nutritional requirements themselves, as CACFP reimbursements do not fully offset the food expenses. This disparity between public funding levels and the actual cost of delivering care remains a central challenge for providers working to balance quality, affordability, and financial sustainability.

OVERSTAFFING AS A MEANS OF STABILITY

Many providers we spoke with shared that they intentionally overstaff classrooms to ensure safe, consistent, and high-quality early childhood education. They emphasized that this approach not only helps reduce staff burnout but also provides crucial coverage when a teacher is absent or if turnover occurs, allowing them to avoid disruptions or temporary classroom closures. When classrooms close due to staff absences, parents and caregivers of impacted children are unable to work, attend job training, or school, either having to miss work or school entirely or show up late. According to the Untapped Potential report, 67% of parents surveyed reported missing work or school/training entirely due to child care issues, including 72% of fathers. About 64% of parents reported showing up late to work or school, including 74% of fathers.[7] Several providers noted that while overstaffing does increase labor costs, it ultimately supports a more reliable and predictable environment for families, which in turn helps maintain consistent enrollment and strengthens long-term program sustainability.

"Some days, we might have seven staff members out. Who's going to care for the kids? I don't get subs. Nobody wants to be a sub in child care—no one. So we have to be overstaffed just to be prepared." – Faith-Based, Region 6

WHY THIS MATTERS

This approach reflects a broader strategy among providers to prioritize stability and continuity of care, even when it requires absorbing higher operating costs. However, this approach can strain the already very thin margins these programs operate with. Ultimately, these providers see enhanced ratios as a means to promote the quality and continuity of their programs, potentially buffering against turnover.

INCREASED WAGES WITHOUT ADDITIONAL FINANCIAL SUPPORT

Many providers pointed to growing policy pressure around raising wages, which they linked to a broader push for increased credentialing and professionalization of the early childhood workforce. While providers overwhelmingly support these efforts to recognize and strengthen the field, they expressed concern that the calls for higher compensation often come without the financial infrastructure to achieve and sustain increases. If providers must raise wages by their own means, they often must raise additional revenue as many operate on razor thin margins. The only real revenue source they have to turn to is tuition revenue from private paying parents. Many are not in a position to raise revenue from serving more children, as existing staff are already hard to find or they operate at capacity and would need to add space. That means providers must then raise the rates they charge existing parents who already struggle to afford the cost of care, which can exacerbate affordability issues and price more parents out of the market.

"We've been working hard to elevate the profession, to make it respected, to raise the standards. And in that process, we've dramatically increased the requirements for people working in early childhood , but without increasing the funding to support those changes...if policymakers want to know why people aren't entering this field, why we have such a shortage of qualified staff, this is why–because the compensation doesn't match the expectations." – Center-Based, Region 1

WHY THIS MATTERS

This gap between policy demand and infrastructure leaves programs struggling to meet rising expectations while lacking the resources to follow through in a meaningful or lasting way. This demand adds to the already challenging position many providers are navigating, as they strive to meet workforce goals without the necessary support to do so sustainably. The provider participants spoke in support of increased compensation to professionalize the field and attract and retain high-quality teachers; however, there have not been sufficient policy drivers to do so.

THE PROVIDER DILEMMA – TRUE COST VS. PRICING OUT

Several providers described a core dilemma in setting tuition and fees that reflect the true cost of care, including staff salaries, facility maintenance, and other essential expenses, while recognizing that even modest increases could price out some families, particularly those relying on subsidy. Although most providers are committed to maintaining the financial viability of their programs, they are increasingly constrained by the financial reality that many families simply cannot afford to pay the full cost of care. This tension leaves programs balancing the needs of their workforce with the financial constraints of the families they serve.

"The system does not cover the true cost of care. And, at the same time, families can't afford to pay what the true cost would be either. And that's the dilemma, right?" – Center-Based, Region 3

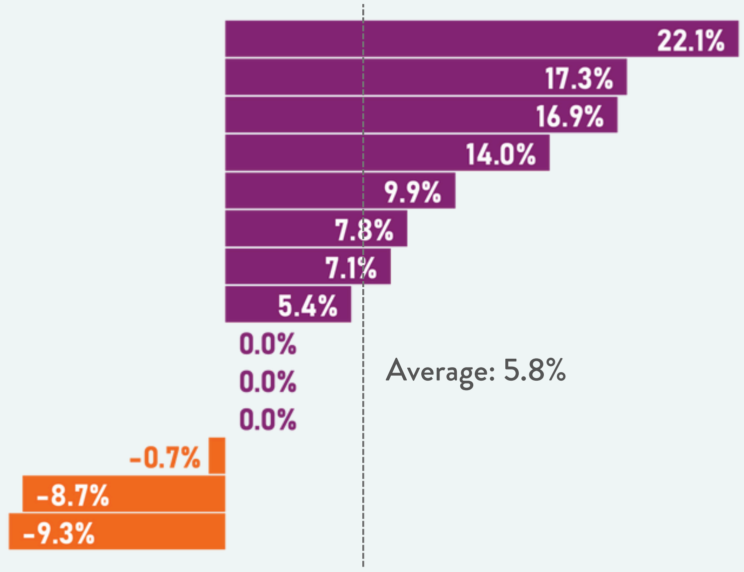
PERSISTENT FINANCIAL CHALLENGES

Providers frequently described operating within very tight financial margins, with limited reserves or rainy day funds to absorb unexpected costs. **Unpredictable expenses such as HVAC repairs, playground mulch replacement, or sanitation needs can quickly strain already stretched budgets.** This financial vulnerability is compounded by unstable and short-term funding structures, leaving programs with little room to plan ahead or respond to emergencies without jeopardizing daily operations.

Child care operators budgets that NC Child analyzed quantify the financial constraints that child care providers operate under. They indicate that profit margins at child care businesses typically do not leave providers with much revenue left over to meaningfully invest back into their operations. Gross profit margins among providers ranged from −9.3% to 22.1%, with an average of 5.8% across all 14 providers. "Good" profit margins can vary by industry, but generally a 20% gross margin is considered high, 10% is standard or average, and 5% or under is low.[33]

AVERAGE PROFIT MARGINS AMONG PROVIDERS IN BUDGET ANALYSIS CONSIDERED "LOW"

Gross profit margin (gross profit/total revenue) among 14 child care providers



SOURCE: NC Child analysis of budgets shared by child care providers.
NOTE: High margins are around 20%, standard margins are around 10%, and low margins are around 5%, according to the Corporate Finance Institute.

With thin margins like this, it is difficult for providers to rely on funds left over after covering their existing expenses. This can complicate child care operators' ability to raise wages to retain staff, hire new staff, or expand facilities to ultimately serve more children and families.

Some of the providers' budgets that we looked at do show healthy margins. Many of these operators have business training that enables them to run more efficiently. For example, one center-based provider in Region 3 had a career in business before operating a child care center. They operate with a profit margin between "standard" and "good" by general measures but do so because of the sharp business acumen they bring. This provider does raise tuition prices to increase wages, maintain staffing levels, and invest in the business when needed, but only after considering if their market can bear the cost increase. Using metrics like consistent enrollment rates and pressure-tested waitlists, they can discern that a price increase will not result in detrimental impacts to enrollment. This really speaks to the benefit that can come from pairing apprenticeships and business training programs with investments in North Carolina's child care system and industry.

PROVIDERS ARE UNABLE TO BUILD OR MAINTAIN EMERGENCY FUNDS

Providers shared that they are often unable to build or maintain emergency funds due to the high cost of daily operations and the unpredictability of available funding. With most revenue going directly toward staffing and basic program expenses, there is little left over to set aside for future needs or unexpected costs. This lack of financial cushion leaves many programs especially vulnerable to disruptions and emergencies. For programs affected by Hurricane Helene, "rainy day funds" disappeared to complete repairs and maintain salaries for staff. Now, when unexpected expenses arise, these programs are reliant on payment plans, loans, or high-interest credit cards to maintain operations.

"But the other thing is, I've tried not to let my center be in debt over the last few years. We've always tried to pay everything off rather than be in debt. We have had to charge for a couple of things on cards and try to get those paid off as quickly as possible to keep from paying all that interest, but that's really not a good solution. We just hope and pray that we don't have to, so we don't have to either charge it or take out a loan or borrow." – Center-Based, Region 1

THE PROBLEM IS MAGNIFIED FOR FAMILY CHILD CARE HOMES

The problem is even more pronounced for FCCHs, which often operate on the thinnest margins with little to no financial cushion. These providers typically run their programs out of their own homes and manage every aspect of the operation themselves, including teaching, administration, meal preparation, and maintenance. With limited enrollment capacity, their revenue is often just enough to cover basic expenses, leaving no room to build emergency funds or respond to sudden costs like appliance failures or health and safety repairs.

"Right now, if something unexpected happens, I either have to use a credit card—if there's enough space on it—or I have to wait and put the money aside until I can afford it." – FCCH, Region 3

Of the three FCCH providers interviewed for this study, their budgets illustrate that they are not in the child care business to make a big profit. FCCHs often operate their programs alone, with few hiring additional staff to care for children. Therefore, the revenue remaining after covering operational expenses, if any, typically represents the wage they pay themselves, an expense that would be counted as staff costs in a child care center budget. The wages FCCH providers generate through their programs are typically barely enough to sustain themselves. As one provider noted, "So if I were to go off last year's taxes—no, I'm low income. With that income, I wouldn't even be able to find anywhere to live. (FCCH, Region 3)." A Region 3 FCCH provider earns about $14 per hour after operational expenses, while a Region 1 FCCH has no remaining funds after covering operational costs, effectively not bringing home a wage from the program.

The Region 3 provider's experience with public support programs shows the impact child care policy can have on raising wages for this essential workforce. The budget they shared included payments through the Child Care Stabilization Grant program and Child Care WAGE$. Without the financial support through these programs, this provider would have earned an effective hourly wage of $7.64 per hour, just 50 cents higher than the federal minimum wage.

REGION 3 FCCH PROVIDER WOULD EARN ABOUT $7.64 WITHOUT PUBLIC SUPPORT

	5-Star FCCH (with CCSG & WAGE$)	5-Star FCCH (w/o CCSG)	5-Star FCCH (w/o CCSG & WAGE$)
Expenses	$50,400	$50,400	$50,400
Revenue	$79,800	$71,300	$66,300
Revenue net costs (wage level)	$29,500	$20,900	$15,900
Hourly wage (2,080 hours worked)	$14.18	$10.05	$7.64

NOTE: Budget categories rounded for privacy.

WHY THIS MATTERS

Lacking the ability to save up for emergencies or build reserve funds can leave child care providers financially vulnerable to personal and professional expenses. Any minor disruption or surprise expense can have the potential to be a make-or-break scenario. This can also result in limited capacity to make quality or structural improvements to their facilities.

THE USE OF TEMPORARY FUNDING SOURCES AS A METHOD OF STABILITY

Providers frequently described relying on temporary funding sources, such as one-time grants, local initiatives, or pandemic-era relief programs, to help maintain operations and support their staff. While these funds offered short-term relief, they were often used to patch immediate needs rather than support long-term programmatic planning. This reliance underscores the fragile and uncertain financial conditions many early childhood programs continue to face.

HOW CENTER-BASED PROVIDERS UTILIZED STABILIZATION GRANT FUNDING

Center-based providers described using Stabilization Grant funding as a critical tool to support program operations and workforce stability during a period of heightened financial strain. Many reported directing funds toward staff wages by offering bonuses, increasing base pay, or covering payroll during periods of enrollment decline. Others used the funding to address deferred maintenance or facility upgrades that had long been out of reach due to limited budgets. Several providers also noted that the grant allowed them to purchase classroom materials, replace aging equipment, or build a small financial cushion for emergencies. While the grant offered temporary relief, providers emphasized that it did not resolve the underlying funding challenges, but rather provided them with much-needed flexibility to continue serving families without interruption.

"That was the thing when we got the fixed cost and family grants as part of the stabilization grant... there had been things that really needed to be done for years, but until we got that money, we just couldn't afford it. We had kind of been using band-aid solutions, you know? But as soon as we found out we were getting those funds, I started scheduling things right away—like the fence, which was in bad shape, so we replaced it. We replaced the flooring too." – Center-Based, Region 1

STABILIZATION GRANTS AND FAMILY CHILD CARE HOMES

Family child care home providers shared that Stabilization Grant funding offered critical support during a time of financial strain. Many used the funds to supplement their income, cover rising supply costs, or make essential home repairs. Some used the grant to support families directly by waiving or reducing tuition for those struggling to pay. Others invested in classroom materials or used the funds to help cover personal expenses like health insurance. While the funding provided short-term relief, providers emphasized the need for ongoing support to sustain these small, community-based programs.

"It was really a good thing when we were getting those stabilization grants. That helped a lot. I was able to support families who were trying to get back into the workforce. I even offered scholarships. One mom, she was in college, and her child care voucher ran out—they gave her 20 months, but she needed 24 to finish. She told me, 'I'm going to have to pull him out because I can't afford it.' And I said, 'Okay, you can keep him here for the next three months, but you have to finish school. If you don't, then you'll have to start paying.' And she did! She finished." – FCCH, Region 3

WHY THIS MATTERS

As the quote above illustrates, providers go beyond offering care to children and are invested in the outcomes of the whole family. By filling the gap caused by the loss of a mother's subsidy voucher, it shows how this provider was not just committed to providing high-quality care but also to helping parents maintain their workforce participation. When providers cannot buffer against financial instability, it hinders their ability to support families' economic and educational mobility. The often-overlooked moments when child care providers offer financial flexibility to keep parents on track, whether for employment or education, demonstrate how vital these services are for individual families, the broader workforce, and the economy.

This underscores how FCCH providers not only relied on the grant to keep their programs afloat but also used it to ensure continuity of care for families in their communities.

THE LOSS OF FUNDING AND FURTHER INSTABILITY

Providers expressed deep concern about the loss of Stabilization Grant funding, describing it as a turning point that reintroduced significant financial uncertainty. Without this support, many programs reported struggling to maintain staff wages, cover rising operational costs, or avoid tuition increases for families. Some had to reduce staff hours, delay repairs, or cut back on classroom resources; measures that directly affect program quality,stability, and service continuity for parents who rely on child care to work. The end of the grant left providers with few options to manage ongoing expenses, especially in a field where margins are already thin. Many described the period following the grant's expiration as one marked by heightened stress, difficult decisions, and growing concern about long-term sustainability.

"That's where those stabilization grants were so helpful – they helped balance the scales a bit. For a little while, it actually felt like we were breaking even. It didn't even feel like it was costing us more to operate the classroom than to not operate it. But now, the way things are? No."
– Center-Based, Region 3

"Without that funding, we've just had to be a lot more intentional – really looking closely at what we have when it comes to what [salary] increases we can afford in the Fall. That cushion just isn't there anymore." – Center-Based, Region 3

"Not buying as much materials as I was before; with the stabilization grant, we had stipulations on what we could spend it on. I won't be buying a lot of materials for the kids...I might need a new table again. I might have to hold off on that table right now, 'cause even the cost of child care materials in general went up too during COVID. That stuff is super expensive, as well." – FCCH, Region 3

PROVIDER COMMITMENT TO SUSTAINING THEIR PROGRAMS

For many of the providers we spoke with, operating their facilities was a significant personal economic sacrifice. While providers across programs were driven by similar commitments to serve families and communities and provide high quality care, this commitment was particularly evident among the home-based providers who were often operating in isolation without structural or administrative support, forgoing income, benefits, or paid time off, as well as necessary personal expenses to keep their programs operational and maintain a consistent and reliable line of care for their children and families.

One family home care provider shared that she charged tuition rates well below market value, and lower than many nearby family child care homes, motivated by a sense of responsibility to the families she served, and that doing the right thing meant keeping care affordable. This provider knew that increasing the cost of care for parents meant taking away the livelihood of families, because without it parents may not be able to work and provide for their kids.

"I was trying to stay within a reasonable range because I didn't want to make it hard for parents to afford care. I didn't want to cripple families, just trying to do the right thing for their children." – FCCH, Region 3

PROVIDERS FORGOING SALARY

Home-based child care providers in particular reported practicing self-imposed financial austerity, regularly facing a monthly economic dilemma. They had to choose between personal expenses like vehicle repairs or assessing if their program had enough liquid funds to pay themselves. A home-based provider from Region 3 described the harsh reality that when funding and revenue are low, she sometimes chooses to forgo paying herself. She discussed a mindset of self-sacrifice, opting to go without to preserve her business. Her story demonstrates how, in the absence of sufficient financial support, personal sacrifice can become a default strategy for early care and education programs.

"I wish I could say it's consistent—because this month, I'm not paying myself. I'm just not going to pay myself. I make personal sacrifices—for myself. I just cut where I can, and if it means that I go without, then I do that." – FCCH, Region 3

The month-to-month uncertainty described by these providers highlights their resilience, as well as the financial sacrifices involved in their day-to-day work.

ABSORBING COSTS TO SHIELD FAMILIES FROM TUITION INCREASES

Many of the providers expressed deep concern about raising tuition rates for families, even if their operating costs demanded it. For both home and center-based programs, the decision to absorb costs rather than increase tuition was rooted in a strong sense of responsibility and compassion for the financial realities their families face. Providers often preferred to bear financial burdens themselves—absorbing rising expenses related to staffing, food, materials, or maintenance rather than passing them on to families unable to handle the increases. Through our conversations with these providers, we heard a willingness to prioritize child and family stability over profitability, which underscores the often unrecognized or quiet sacrifices providers assume to uphold their standards of care. It also reflects the commitment providers have to their communities, understanding that their businesses provide vital services that families rely on to work and contribute to local economies.

" We could raise it up to $100 per child across the board. We could expect the parents to pay that in addition to their subsidy fee. Some centers in our area have gone up to that, and we've tried to avoid that, because it puts some of the parents in a predicament that they're going to pull their children out because they can't afford it. And who knows who they're going to leave their kids with; I honestly worry about them." – Center-Based, Region 1

Another provider we interviewed shared that she had made the difficult decision to implement a modest tuition increase. Recognizing the financial pressure such a change could place on working families, she emphasized that she would provide parents with two years' advance notice to prepare and plan accordingly. As the average cost of center-based infant care in North Carolina is $13,348, with toddler care slightly less at $12,608, parents are having to weigh the decision if they can afford modest increases, even as the current cost of care is higher than the cost of in-state tuition at the University of North Carolina at Chapel Hill.[34]

Further highlighting this is a faith-based provider who described adopting a different mindset in response to the new economic reality after COVID-19 stabilization grants—one that is less focused on offering family-oriented incentives, such as sibling discounts. With the loss of stabilization grant funding, they explained that every enrollment space has to be viewed through a financial lens. While the mission to support families remains important, she described a reality where this has become increasingly difficult when weighed against the realities of keeping her child care business afloat.

"I just wish we could help more families—even the ones we already serve. We have several families with three children enrolled. We used to offer sibling discounts, but we had to take that away. The mindset now is: a spot is a spot. I have to make every spot count to keep that bottom line stable." – Faith-Based, Region 6

WHY THIS MATTERS

As the quotes and experiences shared by providers demonstrate, they go beyond simply providing care to children and are dedicated to the outcomes of the entire family. By filling the gap caused by the loss of a mother's subsidy voucher, or using tuition increases as a last resort, or offering legacy family discounts, these providers demonstrate their commitment to not only providing high-quality care but also helping parents maintain their workforce participation. When providers cannot buffer against financial instability, it hinders their ability to act as supports for families' economic and educational mobility. The often-overlooked moments when child care providers offer financial flexibility to keep parents on track, whether for employment or education, demonstrate how vital these services are for individual families, the broader workforce, and the state's economy.

Addressing the Challenges: POLICY RECOMMENDATIONS

With temporary funding now expired, North Carolina faces an urgent need for long-term solutions to stabilize the child care sector. This section offers recommendations to strengthen investment, support the workforce, and ensure families have access to affordable, high-quality care.

RECOMMENDATION 1: THE CALL FOR A STATEWIDE SUBSIDY FLOOR

Several providers emphasized the need for a statewide subsidy floor as a long-term solution to stabilize child care programs. A subsidy floor would establish a consistent, predictable base rate for reimbursements across counties, helping to reduce disparities driven by local market conditions. Providers noted that current reimbursement rates often fall short of covering the true cost of care, particularly in lower-income areas where market rates are artificially low. By establishing a floor, the state could help ensure more equitable funding, allowing providers to offer competitive wages, maintain quality standards, and remain financially viable. Many saw this as a critical step toward building a more stable and sustainable child care system.

Currently, child care subsidy reimbursement rates are set at the county level based on the rates private providers charge to families for care. This leads to substantial variation across county lines, despite providers facing similar costs across counties to provide care. **For example, a five-star center-based provider in Randolph County receives $715 less per infant receiving a child care subsidy per month than the same quality-rated provider just over the county line in Chatham County.** Child care centers largest expense category is staff costs, and average wages in the child care industry between these counties does not vary nearly as much as the subsidy reimbursement rate. **In 2024, average wages in child care in Randolph County were about 11% lower than in Chatham County, compared to 45% difference in infant reimbursement rates for five-star centers.**

RANDOLPH SUBSIDY REIMBURSEMENT RATES ARE MUCH LOWER THAN NEIGHBORING CHATHAM DESPITE SIMILARITIES BETWEEN WAGES FOR CHILD CARE WORKERS, PROVIDERS' BIGGEST COST

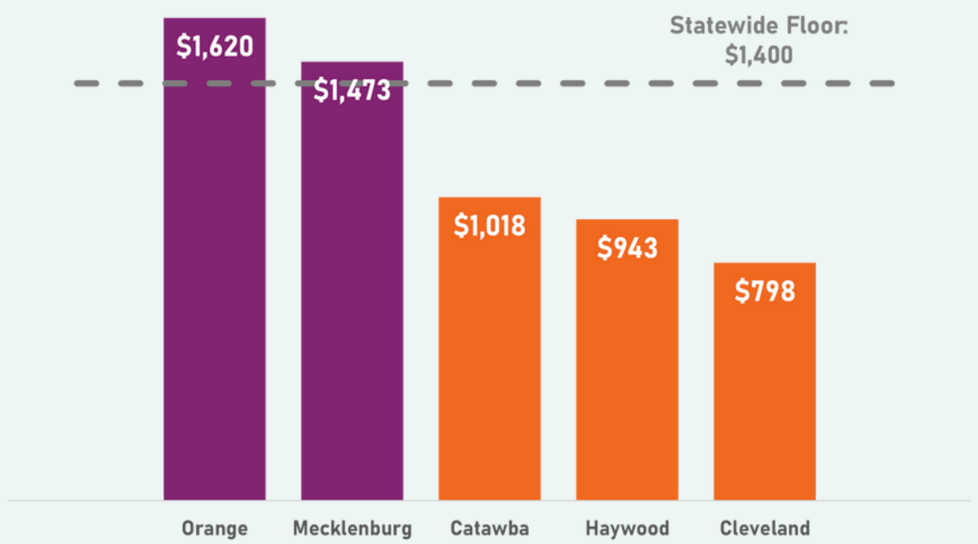
	Average Hourly Wage Child Care Services Industry	Infant Reimbursement 5-star Center-Based Provider
Chatham County	$14.68	$1,582
Randolph County	$13.00	$867
Randolph % Difference	*-11.4%*	*-45.2%*

SOURCE: NCDHHS, DCDEE & US Bureau of Labor Statistics QCEW data

Differences in subsidy rates in counties where providers interviewed in this study operate also show substantial variation in reimbursements they receive from the state for serving children with subsidies. These variations disproportionately impact rural and suburban counties, which can disincentivize participation in the subsidy program and limit the supply of child care for working families. The statewide floor would guarantee providers receive a minimum amount of subsidy reimbursement across the state while allowing providers in counties with rates higher than the floor to continue receiving those higher rates.

SUBSIDY RATES MUCH LOWER IN RURAL AND SUBURBAN COUNTIES THAN URBAN

Five-star center-based child care subsidy reimbursement for infants by county



SOURCE: NC Department of Health & Human Services, Division of Child Development & Early Education

One center-based provider illustrated the tangible effect a subsidy floor could have on their bottom line, emphasizing how even a small increase could help cover essential operating costs.

"Just making a subsidy floor would offset one of our expenses…it would pay for utilities. It literally would keep the lights on." – Center-Based, Region 4

Another provider highlighted the limitations they face in raising staff wages, noting that without additional funding, moving closer to a sustainable wage for their employees is simply not possible.

"We would not be able to give an increase to all our employees in their wages from what they're getting now…to get them more at a living wage." – Center-Based, Region 1

A faith-based provider emphasized that a subsidy floor could allow them to serve more families, particularly families who may qualify for subsidy but cannot afford the co-pay due to low reimbursements.

"We could support more families – especially those who don't get the privilege of accessing church-based care but also can't afford it." – Faith-Based, Region 6

A developmental day program that will soon close noted that a subsidy floor could have potentially assisted them in sustaining operations.

"It would help keep us open." – Center-Based, Region 5

RECOMMENDATION 2: SUBSIDIZED CHILD CARE FOR CHILD CARE PROVIDERS

Several providers expressed strong support for subsidized child care specifically for early childhood educators, noting that many staff members struggle to afford the very care they help provide. With wages often too low to cover basic living expenses, let alone child care costs, staff with young children are placed in an especially difficult position. Providers shared that offering child care subsidies to their own employees would not only alleviate financial stress but also support staff retention and recruitment. By reducing one of the largest household expenses for educators, this approach could help stabilize the workforce and ensure that those caring for young children can also access the care their own families need.

A director of a larger program noted that they are waiving $140,000 per year in potential revenue for discounted child care for their employees, noting the impact this program could have on their bottom line.

"Some smaller schools might be waiving 100% of tuition for staff children. Others might not be able to waive anything at all—and then they struggle to attract teachers, because they can't afford to offer that benefit. So when we talk about something like child care for child care workers...it would be a big deal for us. A really big deal." – Center-Based, Region 3

Recently, NC Child partnered with the North Carolina Child Care Resource and Referral Council to better understand the statewide impact of subsidized child care for child care workers, modeled from the original iteration of this program that launched in Kentucky in 2022. Based on our findings, 61% of surveyed programs discount child care for their employees in some form, at an estimated total cost to providers of $31 million statewide. When asked if this program would be helpful in hiring and retaining staff, more than 4 in 5 providers believed this program would help, and 77% believed this program would help keep programs open, stabilizing access across the state. **If North Carolina were to invest in this program, at least 7,300 providers would benefit, subsidizing care for approximately 10,500 children under 6.**

RECOMMENDATION 3: PROPERTY TAX EXEMPTIONS TO LOWER OPERATIONAL COSTS

Providers recommended a property tax exemption for licensed child care programs as a strategy to reduce operating costs and improve financial sustainability. This innovative solution to address overhead costs began in Austin, Texas, and has since become a statewide initiative in Maryland. Similar to local municipalities in Texas, a constitutional amendment, supported by North Carolina voters, would be needed. For center-based providers, a property tax exemption would improve financial stability as it could significantly reduce overhead costs, offering programs greater flexibility to manage expenses and strengthen financial stability. For centers with large physical footprints or those located in high-cost areas, property taxes can represent a major share of fixed costs. One multi-site child care center provider in Region 3 pays nearly $50,000 per year in property taxes on one building alone, representing about 1% of total annual revenue they bring in from the building. **The amount of property tax they pay on this building alone is more than the cost of paying an additional child care teacher a full year's wage at the average hourly wage level of the county's Child Care Services industry.** Exempting these programs could allow for reinvestment in staffing, facilities, and program quality, supporting long-term sustainability and expanded access for families.

This recommendation was particularly important for FCCHs, where providers operate out of their personal residences and bear the full cost of property ownership. For these small, home-based programs, property taxes can represent a significant financial burden and limit their ability to invest in quality improvements or meet rising expenses. A tax exemption would offer targeted relief to FCCHs and help ensure these critical community resources remain viable.

A FCCH provider in a large city noted that because of revaluation, their property taxes may significantly increase prior to their ability to adjust their tuition rates to cover expenses.

"You might be paying $2,000 one year, and then suddenly you're paying $6,000—just because the value of your home has gone up. That's what happened to us—our property value has gone up a lot where we live." – FCCH, Region 3

Another provider in the same area noted that potential property tax exemptions would provide needed relief, and while the exemption may seem small, it would pay dividends for a small business.

"If there could be, you know, a portion of the property taxes done away with, that would be a big relief. Because I think when our tax bill came in, it was like $3,800. And that's a lot. I mean, $3,800, especially for a smaller business, is a lot of money." – FCCH, Region 3

RECOMMENDATION 4: DETERMINE AVENUES TO REDUCE LIABILITY INSURANCE COSTS

Providers identified the high cost of liability insurance as a significant financial strain and recommended strategies to make coverage more affordable. For many programs, regardless of program type, insurance premiums can consume a disproportionate share of their operating budgets. Reducing these costs through group purchasing options, state-supported risk pools, or targeted subsidies could help providers meet licensing requirements while freeing up resources for staff compensation, facility improvements, and program quality. Addressing liability insurance costs is an important step toward improving the overall financial viability of child care programs.

One provider noted that while liability insurance costs are high, there is an additional risk to losing liability insurance altogether due to the risk associated with operating a facility.

"I hear a lot of [programs] are losing their insurance, not just because their premiums have increased, but because insurance companies are dropping their liability coverage. Whether it's due to compliance issues or reporting issues that have grown, or just because that provider has too much exposure—too much risk in the market—they're being dropped." – Center-Based, Region 3

What Comes Next

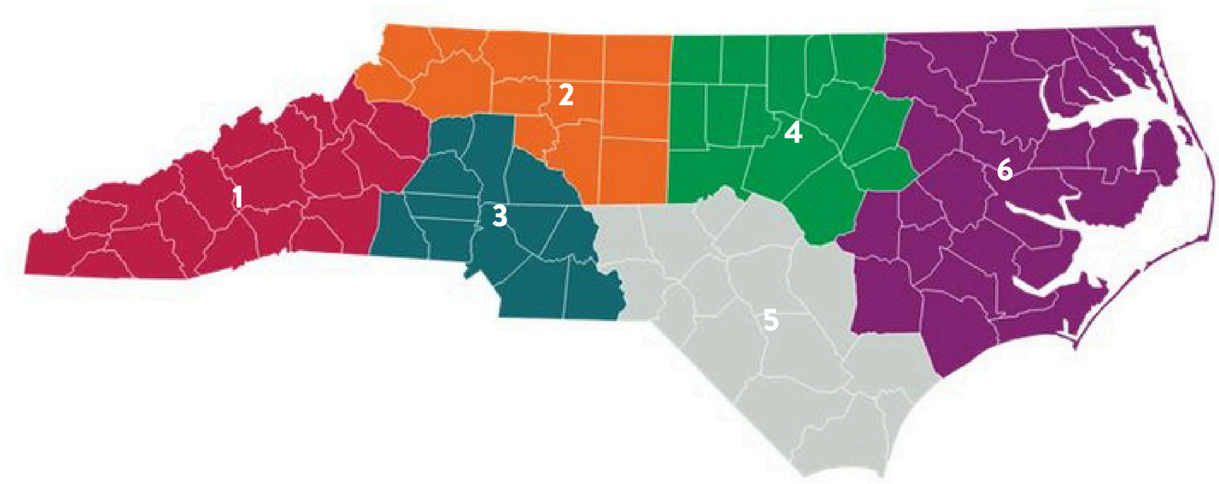
Through budget analysis and provider perspective, this study illustrates a growing financial strain on North Carolina's child care providers, even as their work remains essential to the state's families, workforce, and economy. The expiration of federal relief funding, particularly the Child Care Stabilization Grant, has left many programs in a difficult position. Providers across all settings described how they stretch limited resources to maintain high-quality care, absorb rising costs, and support the children and families they serve. They consistently voiced a desire to remain in the field, not necessarily for profit, but because of their deep commitment to children's development, family well-being, and the health of their local community and economy. However, this commitment alone cannot sustain a fractured system.

Through financial trade-offs, unlimited hours, and personal sacrifice, providers have managed to keep their doors open, but at a cost. The absence of consistent funding that reflects the true cost of care has created statewide instability, contributing to high turnover, reduced enrollment capacity, and diminished access for working families. The current financing structure, utilizing market rates that do not reflect the true cost of care, fails to provide a path to sustainability. Providers are asking for specific policy changes such as a statewide subsidy floor, subsidized care for child care workers, property tax relief, and reduced liability insurance costs that would allow them to continue doing their jobs without compromising the quality of their programs.

As North Carolina considers the future of its early childhood system, the stories and insights shared in this report point to a simple truth: child care is an essential infrastructure. It enables parents to work, prepares young children for success in school and life, and fuels local economies. Without a stable, well-supported provider network, the ripple effects will be felt far beyond classrooms and playgrounds. It will be felt by small town employers, healthcare leaders, and corporate executives. Ultimately, it will be felt by every child, parent, and adult in North Carolina. A more accessible, sustainable system is not only possible, but crucial for future generations. State leaders have the opportunity to build an early care and education system that reflects the value of the people who care for our youngest learners and the communities they serve.

Methodology

NC Child's Child Care Finance Study engaged providers throughout North Carolina, focusing on three predominant types of facilities: private center-based facilities, faith-based facilities who do not participate in the traditional QRIS rating system, and family child care homes.



In total, 12 interviews were completed during May and June. Each interview lasted between 35 minutes and one hour. We conducted targeted outreach to providers across the state, using the North Carolina Department of Health and Human Services regional map (seen above) as a guide to ensure representation from across the state. We were able to speak to programs in most districts, with the greatest proportion of interviews occurring from representatives in Region 3. To maintain the anonymity of interviewees, quotes were aggregated by region.

In understanding the nuance and complexity of early childhood education in North Carolina, we sought to gain perspectives from a variety of child care facilities across the state. A detailed breakdown of facilities can be found below.

Center-Based	Family Child Care Home (FCCH)	Faith-Based Program (GS-110)	Developmental Day	NC-Pre K	Head Start/ Early Head Start
9	3	1	1	2	1

*Note: Center-based programs may also encompass NC Pre-K or Head Start classrooms.

The primary topics that guided the conversation and the creation of the interview protocol were overall sources of revenue for programs, expenditures faced by programs, the influence of various initiatives to sustain the early childhood education sector in previous years, including the Child Care Assistance Program, the Child and Adult Care Food Program (CACFP), WAGE$, AWARD$, and the Child Care Stabilization Grant (CCSG); and the current state of program stability as federal funding through pandemic-era assistance has expired. Protocols were developed and tailored to the type of program (Center-based or FCCH) (see appendix for both protocols). In addition, protocols were developed based on review of background literature. This protocol was drafted after identifying key research questions for the report:

- *What funding sources do providers rely on most, and how do they piece together multiple streams to sustain their programs?*
- *How do providers prioritize and manage their major expenses, such as staffing, facilities, and materials, within their current budget structure?*
- *How are child care providers adapting their financial strategies in response to the expiration of pandemic-era federal funding?*
- *In what ways are providers experiencing and responding to financial pressures, and how are these experiences shaping their decisions about staffing, enrollment, and long-term sustainability?*

Minor revisions to the protocol were made as interviews began based on initial interviews with providers, incorporating the process of reflexivity into interviewing, data collection, and subsequent analysis.

Verbal consent was obtained from all participants prior to the recording of each interview. NC Child staff recorded each interview and transcribed conversations using online transcription services. Transcripts were then cleaned to ensure accuracy between the recording and the transcript. Then, transcripts were uploaded into Dedoose, a qualitative analysis software, to prepare for coding and analysis.

We developed an initial qualitative codebook based on the research goals, the background literature, and the collective experiences of the research team. Codes were categorized into five primary categories: regulation and ratios, revenue, expenses, compensation and staffing, and policy implications (see Appendix for full codebook). NC Child staff employed intercoder reliability as a mechanism for validity. The process utilizes an iterative coding process where a transcript is first coded through a primary coder, with a secondary coder reviewing the same transcript and noting agreement or discrepancy in coding usage. This technique ensured alignment in analysis.

After coding, we conducted a thematic analysis based on excerpts from the provider interviews, and further aggregated the high-level themes into sub-themes, recognizing patterns of alignment and delineation based on responses. We then categorized the themes by center type, differentiating between the experiences of center-based programs and family child care homes.

In addition, we utilized the budgets provided by 14 facility directors to compare their experiences with the expenses and subsequent profit margins for further validity. We compiled the budgets (see Appendix for provider budget information) and utilized our results to recognize alignment between quantitative data and qualitative analysis. The findings were then integrated into the findings of this report.

There are limitations to keep in mind regarding this study. First, while the quantitative findings within provider budgets are rich in depth and quality, the sample size is too small to consider any of the findings generalizable to the broader scope of North Carolina and should be interpreted with caution. In addition, there is an overrepresentation of providers from region 3 due to the level of interest in the work. To mitigate this limitation, we attempted to gain representation from all districts; however, the only region that is not represented in this report is Region 2. Further research and interviewing are needed to create equal distribution between regions to create a broader perspective of the challenges, and if they vary based on the region of the state.

Another limitation of this study is lack of previous research on child care provider budgets. Because of this, NC Child staff utilized existing indirect literature and national studies, as well as cost-modeling studies to create the basis of their methodology. While we have worked to ensure quality and rigor in this report, future research will be able to build on the foundational methodology in this report to create generalizable findings and proportionate representation based on facility type, geographic differences, and other factors that may contribute to a program's financial stability.

Appendices

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