

NC Child

The Voice for North Carolina's Children

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A Roadmap to the True Cost of Child Care

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Background

High-quality early childhood education is a foundational element of a thriving workforce and competitive economy. Yet across North Carolina, child care programs face persistent challenges that threaten both their stability and the state's broader economic health. This is driven largely by rising operational costs, difficulties balancing market pricing with parents' willingness and ability to pay, low reimbursement rates, and difficulties retaining qualified staff. Each closure not only disrupts families but also removes critical infrastructure that enables parents to participate fully in the workforce.

In 2025, North Carolina experienced a net loss of 113 child care programs. These closures have disproportionately impacted many rural communities which are already considered child care deserts, further limiting access for families who already have limited options. **According to our most recent forecast, without additional investment, North Carolina is projected to lose at least 40 rural programs in 2026 alone.**

Similarly, enrollment in North Carolina's child care subsidy program has declined in recent years as the waitlist has grown considerably, due in part to program closures and funding changes for the Child Care Assistance Program. Over the past year, the number of children receiving child care subsidies in North Carolina declined by more than 8,000, from an estimated 65,000 in July 2024 to 56,420 in March 2026. Over the same period, the waitlist for child care subsidies grew from 2,000 children to nearly 17,000. As of March 2026, more than 8,300 children were on the waitlist for child care subsidies.

Workforce challenges exacerbate child care access issues for families with child care subsidies and private paying families. The current median wage for a lead child care teacher in North Carolina is \$13.69 per hour; meanwhile, many short-order restaurants and retail sales establishments are offering starting wages of \$18 to \$20 per hour. Because of this, paired with a lack of guaranteed benefits including insurance, retirement, and paid leave, high turnover is the norm, with programs frequently losing experienced staff and investing heavily in recruitment and training. In 2023, the turnover rate among child care workers in North Carolina was 38%, far higher than the 4% among North Carolina's total workforce in 2023. This instability directly affects program quality, limits access for families, and increases long-term costs for the state through workforce disruptions and reduced productivity.

The average subsidy reimbursement for an infant in a five-star North Carolina program is currently \$1,061 per month. These rates were set using market pricing from 2021. Since then, North Carolina's and the national economy have experienced substantial price inflation. If subsidy reimbursement rates had kept pace with inflation, the average reimbursement for an infant in a five-star child care center would be about \$1,260.

However, these rates have not increased. The reimbursements child care operators receive for providing care have remained flat while the cost of labor, supplies, and materials they need to provide services to families have all increased.

These challenges extend far beyond the classroom. When child care is unreliable or unaffordable, parents are forced to reduce hours, leave the workforce, or decline career advancement opportunities. This loss of labor force participation diminishes household earnings, reduces state tax revenues, and hampers economic growth. From a business perspective, unstable child care limits the ability to attract and retain talent, putting North Carolina at a disadvantage relative to other states competing for a skilled workforce.

Stabilizing the child care sector ensures that parents can work, businesses can thrive, and the state can maintain a robust, competitive labor market. By linking subsidy payments to the true cost of care, North Carolina has the opportunity to prevent program closures, reduce turnover, and safeguard both workforce stability and long-term economic growth.

Given these challenges and the economic stakes for North Carolina, a deliberate, phased approach to aligning child care subsidy payments with the true cost of care is both necessary and strategic.

Key Terms

- **SUBSIDY FLOOR:** A subsidy floor is a minimum reimbursement rate established by the state to ensure that child care providers receive payments that more accurately reflect the cost of delivering quality care. Instead of relying on 100 different sets of county market rates, which are based on what families in a community can afford to pay, a subsidy floor sets a baseline level of funding that prevents reimbursement from falling below a sustainable amount. In current proposals, the subsidy floor is based on the statewide 75th percentile of past market rate studies.
- **TRUE COST OF CARE:** The true cost of care refers to the actual expenses involved in providing high-quality early childhood education, calculated using a cost estimation model rather than market prices. Unlike traditional market rate surveys, which reflect what providers are charging, the true cost of care approach, as outlined in the AIR (American Institutes for Research) alternative market rate study, accounts for all elements needed to sustain quality programs. These include staff wages and benefits, professional development, classroom materials, facilities, administrative costs, and compliance with licensing and quality standards. By capturing the real cost drivers, the true cost of care model provides a more accurate estimate of the funding required to deliver stable, high-quality child care.

Methodology

This analysis is adapted from the North Carolina Alternative Market Rate Study, published in December 2023 by the American Institutes for Research (AIR). There are a few important caveats to distinguish this analysis from the original.

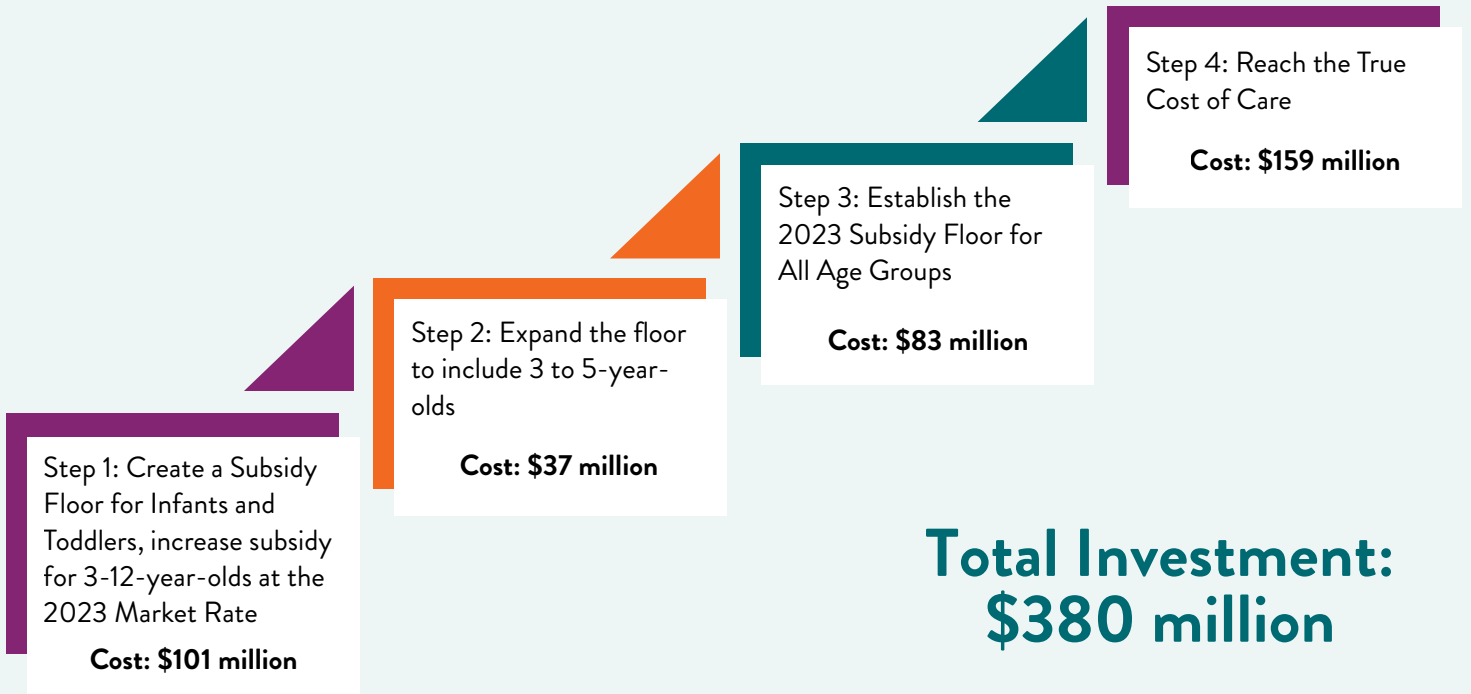
- **Current Level of Investment:** For the 2024 Fiscal Year, the North Carolina General Assembly Allocated \$552 million to DCDEE for Subsidized Child Care. Any costs outlined in this recommendation solely reflects additional investments that are needed to reach the true cost of care.
- **Estimates Reflect all Children Eligible for Subsidy:** In the alternative market rate study, cost of care estimates included infants through school aged children 12 years and younger. This brief assumes the same methodology.
- **Estimates Account for Current Enrollment:** As noted in the background, enrollment in the child care subsidy program has declined significantly due to the expiration of ARPA funding. As enrollments were higher during the original publication of Alternative Market Rate Study, costs are significantly lower than previous projections. This model does not account for the inclusion of additional slots to reduce waitlists. However, future iterations of this report can include calculations of additional slots once the true cost of care is achieved.
- **Inflation Adjustments:** The original *Alternative Market Rate Study* calculated reimbursement rates for the true cost of providing child care using data from 2023. The report also noted that these rates should periodically be adjusted for inflation and the rising costs of goods and services. As such, this analysis adjusts the true cost of care rates from 2023 up to estimated price levels in 2025 using the US Bureau of Labor Statistics Consumer Price Index (CPI). Adjustments use the standard index for all items in the CPI. Given that the roadmap presented in this brief recommends phasing in increased child care investments, the steps that utilize the AIR true cost of care reimbursement rates might not be taken until 2027 or later. For this reason, the actual cost will likely be slightly higher if further inflation adjustments are applied to reflect additional price growth.

Additionally, each step's cost estimate in the roadmap below is iterative. This means it shows the net increase in general fund appropriations needed to invest in the proposed rate structure and assumes the previous step (and necessary funding) has already been implemented. For example, step two's estimated \$36 million increased investment assumes that the \$101 million from step one has already been appropriated. Jumping from the baseline of the current market rate structure to step two would mean a total investment of \$138 million at one time.

Recommendation

IMPLEMENT A PHASED APPROACH TO ALIGN SUBSIDY RATES WITH THE TRUE COST OF CARE.

ROADMAP TO THE TRUE COST OF CARE



To achieve a child care subsidy system that more accurately reflects the true cost of care, it is important to approach implementation through a series of deliberate, structured steps. Each step is designed to build on the previous one, allowing policymakers and administrators to adjust policies based on measurements of access and provider feedback. This phased approach will guide the state in establishing a subsidy floor that increases incrementally while still making an impact on children and families in North Carolina. By carefully sequencing these actions, the roadmap aims to create a sustainable system that supports providers' financial stability, ensures families have reliable access to quality care, and lays the foundation for ongoing evaluation and continuous improvement.

As noted above, cost estimates that include the true cost of care figures from the AIR alternative market rate study have been updated using an inflation adjustment factor calculated from the CPI. Because inflation fluctuates each year, it will be essential to revisit and update these estimates prior to

implementing each step of the roadmap to ensure investments remain accurate and sufficient. Additionally, each step should be reevaluated to reflect any growth or attrition in subsidy enrollment, as the cost of implementing new child care subsidy rate structures relies on recent subsidy enrollment data.

STEP 1: IMPLEMENT THE 2021 MARKET RATE STUDY SUBSIDY FLOOR FOR INFANTS AND TODDLERS AND INCREASE RATES FOR 3- TO 12-YEAR-OLDS TO THE 2023 MARKET RATE STUDY

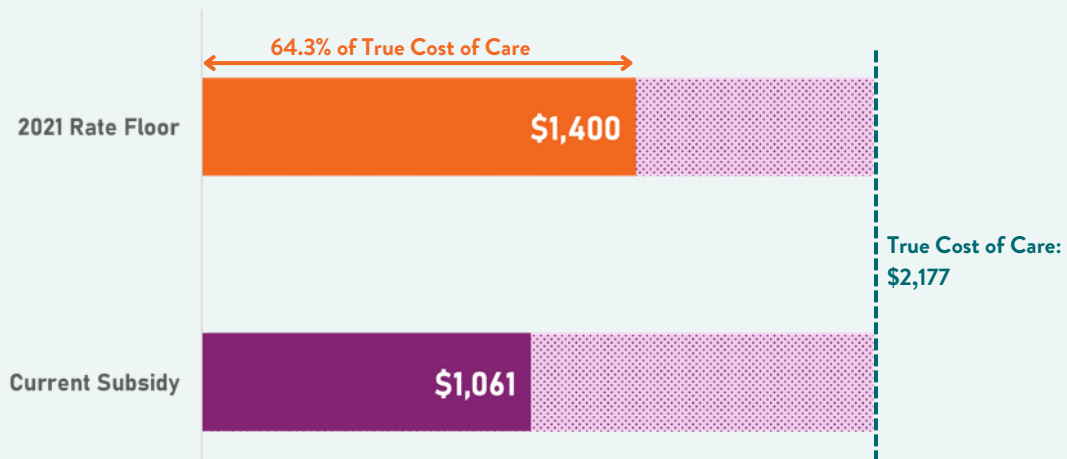
Infant and toddler care is the most expensive to provide, and the least available option throughout the state. Infant and toddler child care deserts are most prevalent in North Carolina's rural communities. Yet, current subsidy reimbursements for this age group remain far below what programs spend to serve them. In many rural communities, current reimbursement rates are less than 50% of the true cost of care. By establishing a subsidy floor at the 2021 market rate for infants and toddlers, policymakers can address the largest deficit in child care access in North Carolina, directly benefiting working families and the economy. Additionally, this initial step would increase county market rates for 3- to 12-year-olds old children to the 2023 Market Rate Study (MRS) levels, as providers currently receive 2021 MRS rate levels for serving children in this age group.

Cost: \$101 million

IMPACT:

5-STAR CENTER RATES FOR INFANTS WOULD BE ALMOST 2/3 OF TRUE COST OF CARE WITH A 2021 MRS SUBSIDY FLOOR FOR INFANTS & TODDLERS

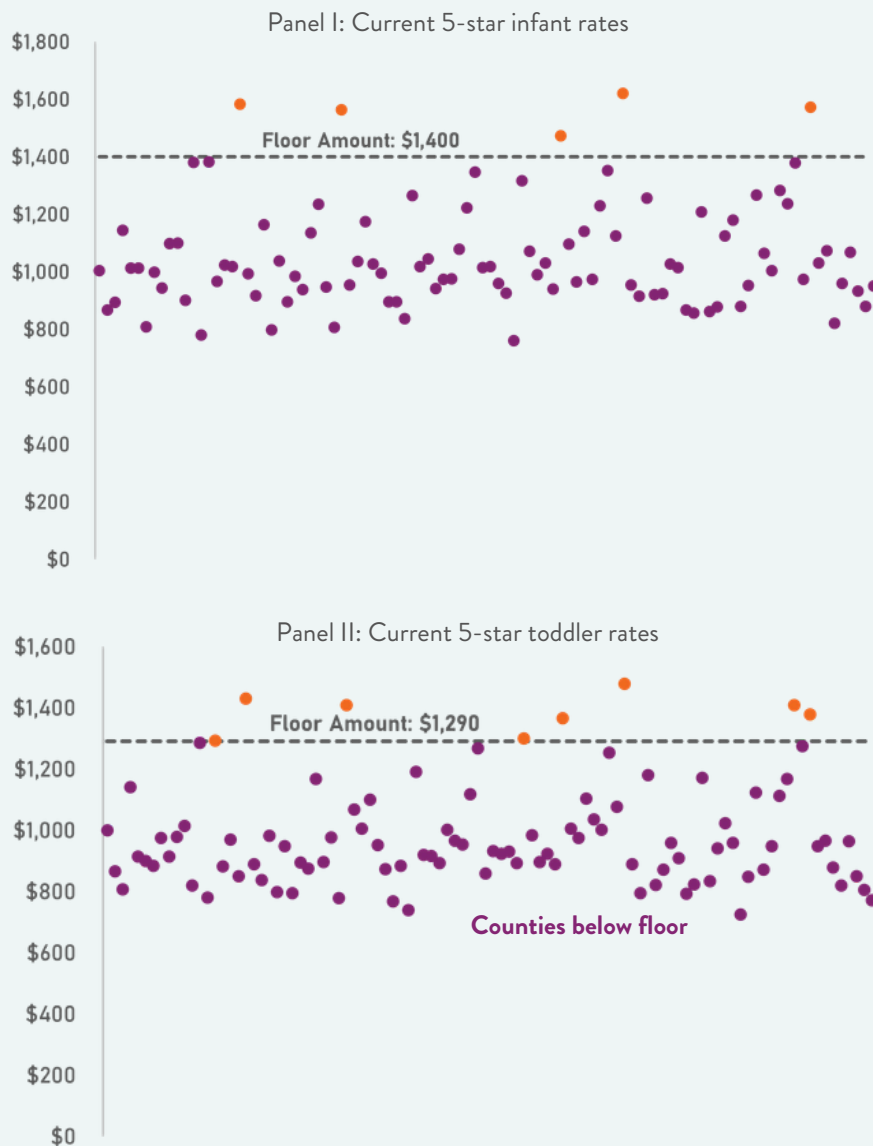
Current average infant reimbursement rate and 2021 subsidy rate floor for infants in 5-star centers.



Source: DCDEE 2021 Subsidy Market Rate Study & AIR Alternative Market Rate Study
NOTE: Counties with market rates above the floor rate would retain the higher amount.

As the chart above shows, establishing a subsidy floor set at the state’s 75th percentile of market rates by provider type (center or family child care home) and quality or star rating for infants and toddlers would bring child care subsidy reimbursement rates much closer to the true cost of care. For infants in a 5-star child care center, the minimum \$1,400 monthly reimbursement rate would be nearly two-thirds of the true cost child care programs incur providing their services. Currently, the average subsidy reimbursement rate for 5-star centers serving infants is less than half (49%) of this true cost of care level.

95 COUNTIES HAVE INFANT REIMBURSEMENT RATES FOR 5-STAR CENTERS BELOW FLOOR LEVEL. 92 HAVE TODDLER RATES FOR 5-STAR CENTERS BELOW THE FLOOR.



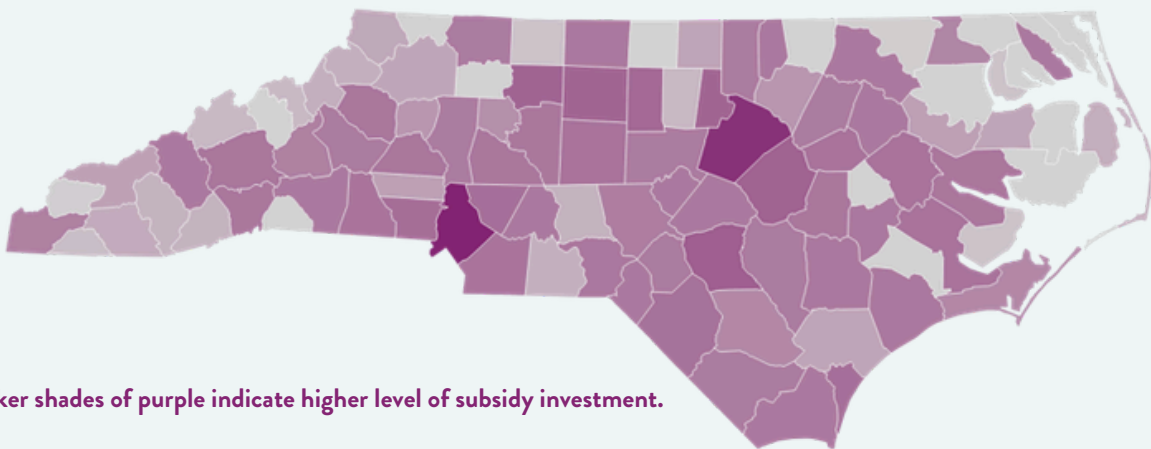
Source: DCDEE current subsidy reimbursement rates & 2021 floor rate for infants & toddlers.
 NOTE: Each dot represents the current subsidy reimbursement rate for a 5-star center in a county.

A comparison of the monthly reimbursement floor amount for infants (\$1,400) and toddlers (\$1,290) in 5-star child care centers to current subsidy amounts by county shows that the overwhelming majority of county level reimbursement rates are below the floor. In 95 counties in North Carolina, 5-star center rates for infants are below the 2021 Market Rate Study (MRS) floor level. Toddler rates for 5-star centers are below the floor rate in 92 counties in the state. All these counties would see rate increases to the floor level for infants and toddlers, with some counties like Lenoir and Caldwell nearly doubling.

Additionally, even counties with rates above the floor amount would see increases, as the proposal raises rates to the highest level between the 2021 MRS rate floor and counties reimbursement rate in the 2023 MRS.

RURAL COUNTIES WOULD SEE AN INCREASE OF \$34 MILLION WITH 2021 SUBSIDY RATE FLOOR FOR INFANTS & TODDLERS AND 2023 MRS RATES FOR 3-12-YEAR-OLDS.

Estimated increase in subsidy reimbursements with step 1 in Road Map to the True Cost of Care.



Source: NC Child analysis of fiscal cost of subsidy investment.

NOTE: Some counties with extremely low subsidy enrollment are excluded due to suppressed data.

Reimbursement rate increases represent additional investments into county child care infrastructure. In rural counties, centers and family child care home (FCCH) providers would see increased investments of \$34 million per year in their child care infrastructure. Counties receive an average of \$1 million in increased investment in their child care systems from the first step in the roadmap, with increases in larger counties like Wake and Mecklenburg exceeding \$10.3 million and \$13.7 million, respectively.

ECONOMIC IMPACT:

Beyond the direct investment in North Carolina's child care infrastructure, increased subsidy funding to child care providers will generate additional economic impacts in local North Carolina communities. Child care subsidy dollars flowing to programs creates additional economic activity through providers using those funds to pay wages, buy goods and services for their business, and the associated ripple effects these activities have through local economies. NC Child worked with NC Commerce to use the economic impact analysis software IMPLAN to estimate the potential economic growth generated by step one's investment in the child care subsidy system. The analysis shows that it would increase North Carolina's gross domestic product (GDP) by \$114.6 million and grow personal income across the state by \$73.4 million.

Additionally, increased funding for child care subsidies via a statewide floor for infants and toddlers and market rate increases for 3-12-year-old children would induce job growth across the state. Step one's funding increase would create more than 1,700 jobs, including more than 1,400 jobs in the child care industry itself. **Job creation in child care means providers can serve more children at their facilities and expand access for both private paying parents and families with child care subsidies alike.**

INFANT-TODDLER FLOOR AND MRS INCREASE FOR 3-12 WOULD INCREASE GDP BY \$114.6 MILLION, CREATE MORE THAN 1,400 CHILD CARE JOBS ACROSS THE STATE.

Sub Prosperity Zone	GDP Increase	Child Care Jobs Created	Personal Income	Job Creation
Charlotte	\$29,830,438	332	\$18,999,112	411
Raleigh-Durham	\$27,827,636	294	\$17,827,661	376
Fayetteville-Lumberton	\$9,359,057	155	\$6,069,868	177
Greensboro	\$9,176,057	114	\$5,848,148	143
Winston-Salem	\$6,372,383	87	\$4,105,748	108
Asheville	\$5,347,282	68	\$3,467,413	85
Greenville	\$4,680,943	72	\$3,057,617	84
Hickory	\$3,795,810	55	\$2,465,475	66
Wilmington	\$3,755,349	47	\$2,324,634	61
Jacksonville-New Bern	\$3,001,342	45	\$1,923,808	55
Goldsboro-Kinston	\$2,855,556	43	\$1,828,418	50
Rocky Mount-Wilson	\$2,741,859	41	\$1,756,208	48
Waynesville-Franklin	\$1,764,295	26	\$1,130,639	31
Pinehurst-Rockingham	\$1,721,387	26	\$1,101,997	32
Elizabeth City	\$1,474,117	20	\$931,845	24
Boone-Wilkesboro	\$849,452	12	\$537,737	14
STATEWIDE IMPACT:	\$114,552,965	1,436	\$73,376,327	1,768

Source: IMPLAN analysis by NC Commerce Labor & Economic Analysis Division (LEAD)

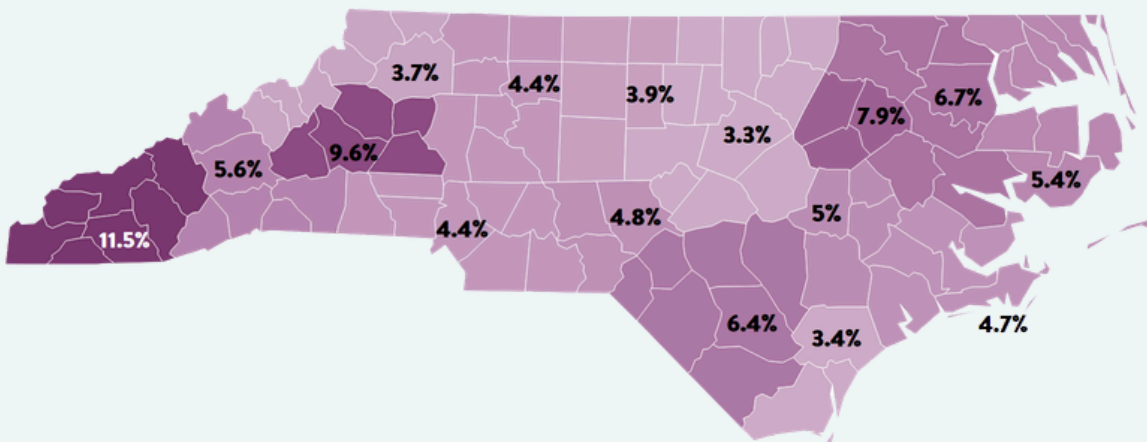
NOTE: Each sub-Prosperity Zone includes several counties with interconnected labor markets and economies. A detailed map of sub-Prosperity Zones from NC Commerce can be found [here](#).

Regional breakdowns of the economic impact from step one indicate that North Carolina’s Triangle region and Charlotte metro area would see the largest growth in GDP, which reflects the concentration of child care programs and enrollment in these regions and larger contributions these areas make to North Carolina’s economy. Still, more rural economies in Western and Eastern North Carolina would see substantial growth in both GDP and jobs. Local economies in Western North Carolina would expand by \$11.8 million and add 160 new child care jobs, while Eastern North Carolina’s economy would grow by roughly \$29.6 million and add nearly 450 child care jobs.

IMPACT ON CHILD CARE JOB CREATION

The map below highlights the projected increase in child care jobs across North Carolina by implementing Step 1 of the True Cost of Care Roadmap. Every region of the state would experience workforce growth, with some of the largest gains occurring in rural communities where reimbursement rates currently fall far below the true cost of providing care. Western counties show some of the strongest projected increases, as the Waynesville-Franklin sub prosperity zone would experience an 11.5% increase in child care jobs, with the Hickory sub prosperity zone experiencing a 9.6% increase in child care jobs. Rural Eastern North Carolina would also experience notable gains, with several counties projected between 5% and 8% growth. By creating more stable and predictable funding for providers, step 1 would help programs raise compensation, reduce turnover, expand staffing capacity, and ultimately serve more children and working families across the state.

INFANT-TODDLER FLOOR AND MRS INCREASE FOR 3-12 WOULD INCREASE CHILD CARE JOBS BY 11.5% IN WAYNESVILLE-FRANKLIN SUB PROSPERITY ZONE



Source: IMPLAN analysis by NC Commerce Labor & Economic Analysis Division (LEAD)

NOTE: Each sub-Prospersity Zone includes several counties with interconnected labor markets and economies. A detailed map of sub-Prospersity Zones from NC Commerce can be found [here](#).

STEP 2: IMPLEMENT THE 2021 MARKET RATE STUDY SUBSIDY FLOOR FOR THREE- THROUGH FIVE-YEAR-OLDS

Once infant and toddler reimbursement rates are established, the state can extend this same protection across the entire early care and education system. The second step, establishing the 2021 floor for all children 5 and under, establishes reimbursement rates for classrooms that are closer to the true cost of care. This step brings predictability to programs and raises the rate for the age group that represents the largest share of children served by child care subsidies in North Carolina.

Cost: \$37 million

ECONOMIC IMPACT

As the investment amount grows in step two, so does the cumulative economic impact through the rest of the economy. IMPLAN results indicate that, combined with step one's investment, the establishment of a statewide subsidy floor for all children ages 0- to 5-years-old would generate a \$157.9 million increase in North Carolina's GDP and increase labor income by about \$101 million. This includes a \$19.7 million increase in WNC sub-Prosperity Zone regional economies and a \$49.5 million GDP increase in ENC.

The investments from steps one and two would create more than 2,400 jobs across the state and more than 2,000 in the child care industry alone. The 2021 statewide subsidy floor would create roughly 270 child care jobs in WNC sub-Prosperity Zone counties and more than 750 jobs in child care in ENC.

2021 MRS STATEWIDE SUBSIDY FLOOR FOR CHILDREN 0-5 WOULD INCREASE GDP BY \$158 MILLION, CREATE MORE THAN 2,000 CHILD CARE JOBS ACROSS THE STATE.

Sub Prosperity Zone	GDP Increase	Child Care Jobs Created	Personal Income	Job Creation
Charlotte	\$35,318,353	387	\$22,449,327	483
Raleigh-Durham	\$32,163,123	333	\$20,536,636	430
Fayetteville-Lumberton	\$14,464,443	239	\$9,382,188	273
Greensboro	\$12,147,435	151	\$7,740,529	190
Winston-Salem	\$9,157,420	126	\$5,905,736	156
Greenville	\$8,334,624	128	\$5,444,186	150
Hickory	\$7,370,732	108	\$4,798,001	128
Asheville	\$7,147,014	90	\$4,628,587	113
Goldsboro-Kinston	\$5,850,494	89	\$3,756,463	104
Wilmington	\$5,513,340	68	\$3,405,966	90
Jacksonville-New Bern	\$5,482,427	83	\$3,515,819	101
Rocky Mount-Wilson	\$4,722,675	71	\$3,026,946	83
Waynesville-Franklin	\$3,676,540	55	\$2,360,611	65
Pinehurst-Rockingham	\$2,863,674	44	\$1,837,516	54
Elizabeth City	\$2,271,155	30	\$1,433,559	37
Boone-Wilkesboro	\$1,483,754	20	\$940,894	25
STATEWIDE IMPACT:	\$157,967,203	2,023	\$101,162,963	2,483

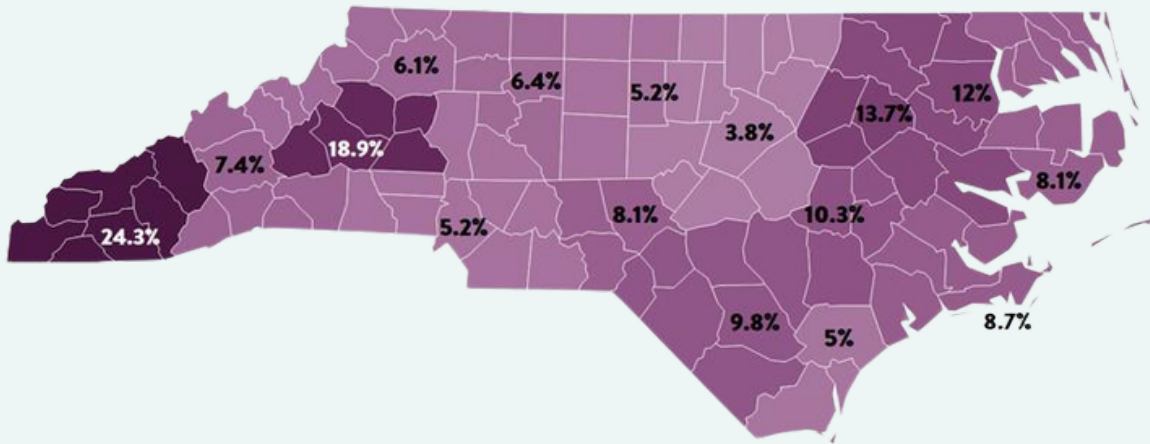
Source: IMPLAN analysis by NC Commerce Labor & Economic Analysis Division (LEAD)

NOTE: Each sub-Prosperity Zone includes several counties with interconnected labor markets and economies. A detailed map of sub-Prosperity Zones from NC Commerce can be found [here](#).

IMPACT ON CHILD CARE JOB CREATION

By investing in step 2 of the roadmap, the projected impacts to child care job creation are substantial statewide, with many sub prosperity zones seeing workforce growth between 8% and 14%. Like step 1, the most significant impact continues to be felt in the Waynesville-Franklin and Hickory sub prosperity zones, where projected increases in child care jobs equal 24.3% and 18.9%, respectively. These increases reflect the transformative impact that more adequate and equitable reimbursement rates could have on the child care market. Substantial impacts are also noticeable in rural Eastern North Carolina, as the Rocky Mount-Wilson sub prosperity zone would see a 13.7% increase in child care jobs. As the Waynesville-Franklin, Hickory, and Rocky Mount-Wilson sub prosperity zones have seen significant closures since 2025, intentional investments in the subsidy floor as a means of reaching the true cost of care could allow providers to stabilize their programs, hire and retain teachers, and expand operations.

2021 MRS STATEWIDE SUBSIDY FLOOR FOR CHILDREN 0-5 WOULD INCREASE CHILD CARE JOBS STATEWIDE, WITH GREATEST GAINS IN RURAL SUB PROSPERITY ZONES



Source: IMPLAN analysis by NC Commerce Labor & Economic Analysis Division (LEAD)

NOTE: Each sub-Prospersity Zone includes several counties with interconnected labor markets and economies. A detailed map of sub-Prospersity Zones from NC Commerce can be found [here](#).

STEP 3: INCREASE THE SUBSIDY FLOOR TO THE 2023 MARKET RATE

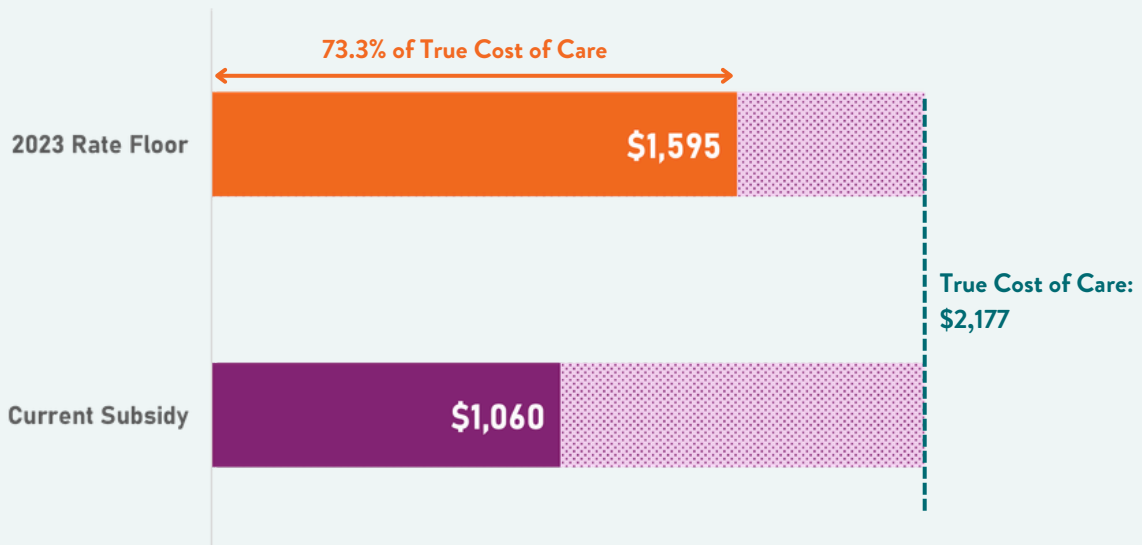
Once the subsidy floor is established for the 0-5 population, the floor should then be increased to reflect the most recent market rate study and expanded to all ages. Establishing a subsidy floor based on the 2023 market rate study would be more reflective of increased labor and materials costs and will bridge the gap between the reimbursement providers receive for serving children with child care subsidies and the actual costs to provide that care. While still tethered to the market, this update helps providers cover current expenses, from rising labor costs to food and supplies. This increase will further incentivize providers to accept subsidy reimbursement, particularly in rural communities where current reimbursements are not reflective of cost.

Cost: \$83 million

IMPACT:

5-STAR CENTER RATES FOR INFANTS WOULD BE NEARLY 75% OF TRUE COST OF CARE WITH A 2023 MRS SUBSIDY RATE FLOOR.

Current average infant reimbursement rate and 2023 subsidy rate floor for infants in 5-star centers.



Source: DCDEE 2023 Subsidy Market Rate Study & AIR True Cost of Care Report

ECONOMIC IMPACT:

IMPLAN results inclusive of the first three steps of the roadmap continue to illustrate the economic impact of direct investments in North Carolina's child care system. After implementing a statewide child care subsidy floor at the 2023 MRS levels for children of all ages, North Carolina's GDP would grow by \$252.1 million and personal income in the state would increase by \$161.4 million. Additional funding for child care subsidies would add more than 4,000 jobs to North Carolina's labor force, including nearly 2,500 jobs in child care alone.

Rural Western and Eastern North Carolina could see substantial economic growth and child care job creation from these subsidy investments. In WNC sub-Prosperity Zones, GDP would increase by \$32.6 million from the first three steps in the roadmap, while more than 450 child care jobs would be created. ENC's economy would grow by \$91.4 million, and investments would induce nearly 1,400 new jobs in child care.

2023 MRS STATEWIDE SUBSIDY FLOOR FOR CHILDREN 0-12 WOULD INCREASE GDP BY \$252 MILLION, CREATE MORE THAN 3,200 CHILD CARE JOBS ACROSS THE STATE.

Sub Prosperity Zone	GDP Increase	Child Care Jobs Created	Personal Income	Job Creation
Charlotte	\$45,824,010	492	\$29,058,871	620
Raleigh-Durham	\$42,024,566	421	\$26,685,726	553
Fayetteville-Lumberton	\$28,051,803	464	\$18,202,976	530
Greensboro	\$23,188,552	291	\$14,796,980	363
Winston-Salem	\$17,137,580	237	\$11,057,089	293
Greenville	\$15,143,454	232	\$9,890,455	273
Hickory	\$11,900,623	174	\$7,749,670	207
Asheville	\$11,432,829	144	\$7,402,957	181
Goldsboro-Kinston	\$10,532,466	160	\$6,762,805	187
Wilmington	\$9,369,639	115	\$5,776,418	152
Rocky Mount-Wilson	\$9,336,142	141	\$5,992,526	164
Jacksonville-New Bern	\$9,056,520	137	\$5,803,666	167
Waynesville-Franklin	\$6,427,687	96	\$4,128,070	114
Pinehurst-Rockingham	\$5,576,405	86	\$3,580,706	105
Elizabeth City	\$4,339,639	58	\$2,742,020	72
Boone-Wilkesboro	\$2,797,840	39	\$1,777,212	48
STATEWIDE IMPACT:	\$252,139,754	3,287	\$161,408,148	4,030

Source: IMPLAN analysis by NC Commerce Labor & Economic Analysis Division (LEAD)

NOTE: Each sub-Prosperity Zone includes several counties with interconnected labor markets and economies. A detailed map of sub-Prosperity Zones from NC Commerce can be found [here](#).

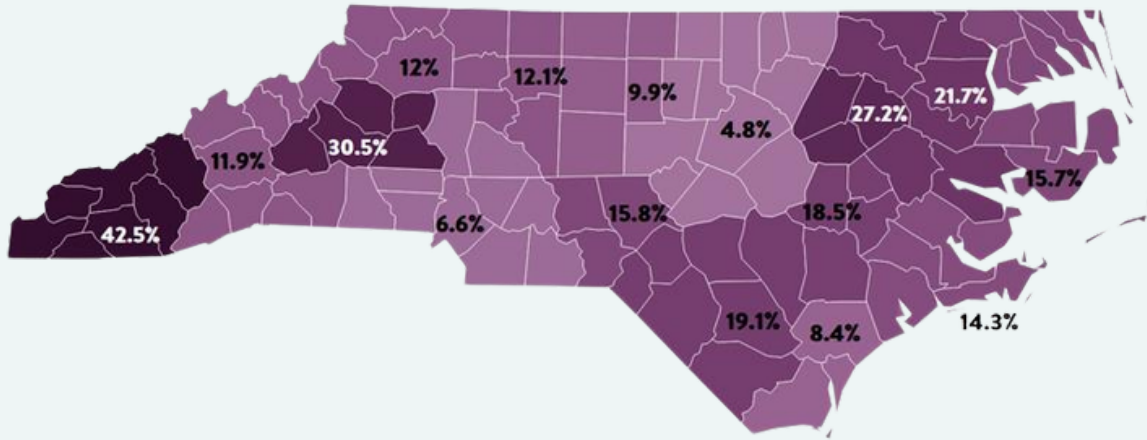
IMPACT ON CHILD CARE JOB CREATION

Step 3 of the roadmap would accelerate child care workforce growth across nearly every region of North Carolina, with especially dramatic impacts projected in rural and economically distressed communities. Several sub-prosperity zones are projected to experience workforce growth exceeding 20%, including Waynesville-Franklin (42.5%), Hickory (30.5%), Rocky Mount-Wilson (27.2%), and Greenville (21.7%). The projected increases are not isolated to one region of the state. Strong gains are also visible across southeastern North Carolina, including Lumberton (19.1%) and Goldsboro-Kinston (18.5%), reflecting the broad statewide impact of moving closer to the true cost of care.

Sustained investments in subsidy reimbursement rates could significantly strengthen the supply of child care educators in areas that have experienced prolonged workforce shortages, limited provider capacity,

and ongoing program closures. By improving the financial stability of providers, Step 3 would allow programs to compete more effectively for educators, reduce staffing-related classroom closures, and expand access for working families in both rural and urban communities.

2023 MRS STATEWIDE SUBSIDY FLOOR FOR CHILDREN 0-12 WOULD INCREASE CHILD CARE WORKFORCE CAPACITY SUBSTANTIALLY IN RURAL NORTH CAROLINA



Source: IMPLAN analysis by NC Commerce Labor & Economic Analysis Division (LEAD)

NOTE: Each sub-Prosperity Zone includes several counties with interconnected labor markets and economies. A detailed map of sub-Prosperity Zones from NC Commerce can be found [here](#).

STEP 4: INCREASE SUBSIDY REIMBURSEMENTS TO REFLECT THE TRUE COST OF CARE

The fourth step achieves what the entire roadmap has been moving toward: funding based on the true cost of care, rather than the market’s ability to bear it. This final investment shifts the system away from a model rooted in family affordability and toward one grounded in the actual expenses of quality early childhood education—fair wages, benefits, facilities, and developmentally appropriate environments. When the true cost of care is met, early educators can be compensated at levels that promote retention and stability. It ensures that children have consistent, stable relationships with the teachers who shape their earliest years. And it ensures that North Carolina’s economy benefits from a workforce supported by reliable, high-quality care.

Cost: \$159 million

IMPACT:

Step four's intent is to reimburse child care providers at rates that are reflective of the costs they incur to provide early education to children. Aligning reimbursements with cost will generate additional revenue for providers for children they are already serving and help stabilize North Carolina's child care system. This will allow providers to reinvest subsidy dollars into their programs through wage increases for child care teachers, expanding staff, and other program enhancements that, ultimately, benefit children and families. It will also enable providers to increase slots for private paying parents, as studies have found that increased child care subsidy rates translate into expansions of private child care capacity.¹

This last step also moves the state's Child Care Assistance Program to a simplified rate structure and away from an overly complicated reimbursement system. With the current child care market rate schedule using the 2021 Market Rate Study, North Carolina has more than 3,000 different county-level reimbursement rates for infants to 12-year-old children in child care centers and family child care homes. At the true cost of care level of reimbursement, there would be just 27 rates for infant to 12-year-old children, but hold harmless provisions would allow qualifying providers in some counties to continue receiving reimbursement rates set through the 2023 Market Rate Study at higher levels, ensuring that child care programs do not receive a rate decrease.

ECONOMIC IMPACT:

IMPLAN results inclusive of all steps of the roadmap illustrate the significant economic impact of direct investments in North Carolina's child care system. After implementing reimbursements that are reflective of the true cost of care, North Carolina's GDP would grow by \$324.8 million and personal income in the state would increase by \$208 million. Additional funding for child care subsidies would add more than 5,100 jobs to North Carolina's labor force, including more than 4,100 jobs in child care alone.

Rural Western and Eastern North Carolina could see substantial economic growth and child care job creation from this investment. In WNC sub-Prosperity Zones, GDP would increase by \$35.5 million from the full roadmap, while nearly 500 child care jobs would be created. ENC's economy would grow by \$107 million, and investments would produce more than 1,600 new jobs in child care.

1. Lee, Won F., Sojourner, A., Davis, E. E., and Borowsky, J. "Effects of Child Care Vouchers on Price, Quantity, and Provider Turnover in Private Child Care Markets." *Journal of Human Capital*. January 17, 2024. Accessed at: https://research.upjohn.org/up_workingpapers/394/

REIMBURSEMENTS REFLECTIVE OF THE COST OF CARE WOULD INCREASE GDP BY \$324 MILLION, CREATE MORE THAN 4,100 CHILD CARE JOBS ACROSS THE STATE.

Sub Prosperity Zone	GDP Increase	Child Care Jobs Created	Personal Income	Job Creation
Charlotte	\$65,837,407	717	\$41,821,965	898
Raleigh-Durham	\$63,467,082	650	\$40,449,823	845
Fayetteville-Lumberton	\$33,869,322	561	\$21,976,907	640
Greensboro	\$32,512,479	410	\$20,763,947	510
Winston-Salem	\$20,500,281	280	\$13,203,647	348
Greenville	\$18,122,761	278	\$11,838,956	327
Hickory	\$13,887,701	203	\$9,039,761	242
Goldsboro-Kinston	\$11,975,648	182	\$7,684,896	212
Asheville	\$11,862,320	149	\$7,676,095	188
Wilmington	\$11,692,842	144	\$7,214,923	190
Jacksonville-New Bern	\$10,554,307	159	\$6,762,097	194
Rocky Mount-Wilson	\$10,096,529	152	\$6,471,675	177
Waynesville-Franklin	\$6,671,010	100	\$4,284,037	118
Elizabeth City	\$5,454,799	74	\$3,450,131	90
Pinehurst-Rockingham	\$5,308,346	80	\$3,389,567	99
Boone-Wilkesboro	\$3,071,483	42	\$1,948,414	52
STATEWIDE IMPACT:	\$324,884,317	4,178	\$207,976,841	5,130

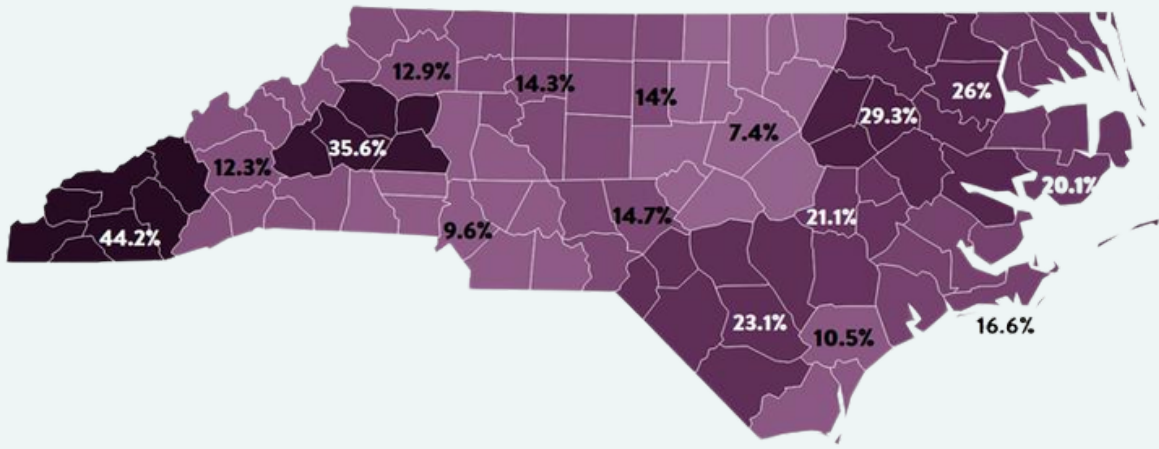
Source: IMPLAN analysis by NC Commerce Labor & Economic Analysis Division (LEAD)

NOTE: Each sub-Prosperity Zone includes several counties with interconnected labor markets and economies. A detailed map of sub-Prosperity Zones from NC Commerce can be found [here](#).

IMPACT ON CHILD CARE JOB CREATION

By reaching the true cost of care through the final step of the roadmap, projected child care workforce growth becomes even more substantial across North Carolina’s sub-prosperity zones. The largest projected increases continue to occur in rural and economically distressed regions, including a 44.2% increase in the Waynesville-Franklin sub-prosperity zone and 35.6% growth in the Hickory sub-prosperity zone. Eastern North Carolina also sees major projected gains, including 29.3% growth in Rocky Mount-Wilson and 26% growth in Greenville. Additional strong increases are projected across southeastern North Carolina, including Lumberton (23.1%), Goldsboro-Kinston (21.1%), and Elizabeth City (20.1%). Reaching the true cost of care would not only stabilize struggling providers but fundamentally strengthen the supply of early childhood educators across the state, particularly in communities facing persistent shortages, limited capacity, and ongoing program closures.

FULL COST-OF-CARE REIMBURSEMENT RATES COULD DOUBLE PROJECTED WORKFORCE GROWTH COMPARED TO ROADMAP STEPS 1 AND 2



Source: IMPLAN analysis by NC Commerce Labor & Economic Analysis Division (LEAD)

NOTE: Each sub-Prosperity Zone includes several counties with interconnected labor markets and economies. A detailed map of sub-Prosperity Zones from NC Commerce can be found [here](#).

Evaluation of Implementation

As North Carolina considers establishing a subsidy reimbursement rate floor that reflects the true cost of child care, NC Child will lead a comprehensive evaluation of the implementation of each step of the roadmap. This evaluation will ensure that policies are executed effectively, intended outcomes are achieved, and adjustments can be made in real time based on evidence. NC Child will draw on its expertise in policy analysis, research, and stakeholder engagement to capture the experiences of providers, families, and communities, identifying barriers and opportunities at every stage of implementation.

The evaluation will examine each sequential step of the roadmap. NC Child will establish clear indicators of success for every stage, including provider financial stability and increased access to care. Through the collection and analysis of surveys and interviews with providers, NC Child will identify gaps, challenges, and deviations from intended outcomes. These insights will be translated into actionable recommendations.

Considerations

While this report provides a foundation to achieve the true cost of care, there are many factors to consider.

CURRENT ESTIMATES REFLECT THE LATEST MARKET RATE STUDIES AND ENROLLMENT DATA

It is important to note that the current estimates as outlined in this brief are reflective of the 2021 and 2023 Market Rate Studies. It is impossible to calculate the cost of a subsidy floor at rates that are yet to be determined. In addition, cost estimates are based on recent enrollment data provided by the Department of Child Development and Early Education. Specifically, we use Child Care Assistance Program enrollment data from the month of April 2025. Should enrollment fluctuate, cost estimates will shift. It is important to re-evaluate costs prior to advancing through each step of the process, as well as in consideration for increases in slot availability once the cost of care is met.

RECENT LEGISLATION MAY IMPACT CURRENT ESTIMATES

As with future Market Rate Studies, proposals that consider decoupling reimbursement rates and Quality Rating and Improvement System (QRIS) star ratings will significantly alter the cost estimates throughout this report. House Bill 412 instructs DCDEE to complete a study that assesses the possibility of decoupling, along with the completion of the 2025 Market Rate Study. Both reports will be due to the General Assembly by May 2026. As of October 2025, Vermont is the only state to decouple subsidy reimbursements from a program's QRIS star rating after previously coupling, however, programs are required to participate in the QRIS evaluation and work towards a continuous improvement model. In doing so, they increased subsidy reimbursements for all programs participating in QRIS to the 5-star reimbursement rate. For North Carolina to do the same, projected costs outlined in this brief would increase significantly.

In addition, the first step of the road map is consistent with current budget discussions in the 2025 legislative session. Both the House and Senate have proposed an \$80 million investment to raise subsidy reimbursement rates based on the 2023 Market Rate Study, while the Governor's budget calls for an \$88 million allocation toward the same goal.

COSTS ARE ESTIMATED USING BLANKET "HOLD HARMLESS" POLICIES

If a county's estimated market rate (the rate based on local child care costs) is higher than the subsidy floor or true cost of care rate, providers in that county receive the **higher of the two rates**. The floor ensures no provider's payment drops below a guaranteed minimum, while the market rate allows providers to be reimbursed at levels that reflect current local dynamics. This is particularly important when estimating costs for a number of urban counties, however, hold harmless policies will largely impact less than 10 of North Carolina's 100 counties throughout implementation.

INCREMENTAL IMPLEMENTATION WILL INCREASE ADMINISTRATIVE BURDEN

While an incremental approach is the most cost-effective option to create and establish a subsidy floor, it will require increased administrative burden on DCDEE and NC FAST to establish market rate floors for certain age groups while still abiding by the Market Rate Subsidy amounts for others. While doable, this will require coordination between DCDEE and NC FAST, which may potentially delay the timing of implementation.