

ORANGE COUNTY, NC

ORANGE COUNTY  
CHILD CARE TASK  
FORCE

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CHILD CARE IN ORANGE COUNTY

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## CHILD CARE TASK FORCE

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### BACKGROUND

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On November 29, 2005, a special briefing for Orange County employers on the impact of child care on today's workforce was sponsored by the Orange County Board of Commissioners and other local organizations. The purpose of this briefing was to begin a community discussion about the current child care resources and the needs of children in our community. The briefing included information about the economic impact of child care on businesses and some of the options currently available to employers. Commissioners Foushee and Carey attended the briefing. At the end of the meeting, Commissioner Foushee recommended that the Board of Commissioners appoint a task force with broad representation including employers and charge the group with raising community awareness, encouraging greater financial participation by the private, business and public sectors in providing child care resources, and championing workplace support for children and families.

During the BOCC annual retreat and work sessions, the Commissioners further discussed establishing a Task Force to study the various issues related to child care. The Commissioners indicated their interest and support for this concept and provided additional input about the purpose of the task force.

Based on this information, the Commissioners established the Orange County Child Care Task Force. The following is the charge given to this task force.

- To create community awareness of and support for the benefits of early childhood education
- To increase private, business and public financial contributions for child care subsidies or scholarships
- To improve workplace support for children and families

The Task Force members include individuals representing university, business, child care providers, schools, non-profit, and local government interests. Attachment A is a list of those organizations and persons serving on the task force.

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### INTRODUCTION

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This report provides a broad picture of the significant contribution that child care subsidies make to working families receiving them, to the children who benefit directly from the care, and to the economic well-being of the county as a whole. It also contains discussion of the issues examined, documents that describe the current resources and current needs for child care subsidies, and a description of the considerable economic advantage for both families and businesses that child care subsidies provide. Finally, this report provides recommendations for the BOCC on continuing to lead the way in providing affordable child care for Orange County residents.

#### WHY IS CHILD CARE NECESSARY?

Child care is an important and necessary part of the lives of most working families in Orange County. Parents or guardians may utilize child care for a variety of reasons. The parent(s) may work full or part-time, attend school, have an illness necessitating child supervision, or require a break from the

demands of child care. Without available child care, a parent/guardian may be in danger of losing a job or forced to leave a child in less than ideal conditions. For the majority of families there are relatively few options for safe and secure child care. Families may utilize relatives, babysitters, and neighbors, but most tend to seek more permanent solutions in the form of licensed child care homes or centers.

### **COSTS OF PRIVATE CARE**

There are several types of licensed child care available; the type of care appropriate for one family may not be the best for another. A child care home is licensed to care for five or fewer preschool age children, and an additional three school age children. Licensing as a center is required when six or more children are cared for in a residence or when three or more children are in care in a building other than a residence. Additionally, many schools, both public and private, offer before and after school care.

In order to increase the quality of child care in North Carolina, in September 2000, the Division of Child Development issued star rated licenses to all eligible Child Care Centers and Family Child Care Homes.<sup>1</sup> The star rated license is a voluntary licensing system where a child care program can earn points in two different areas:

- Program Standards
- Staff Education

Programs that are meeting higher standards can receive recognition for their efforts, and families can use this information to search for a child care program.

The increased focus on quality has led costs to rise sharply in the last fifteen years. In 1991, the average cost for a child to attend private day care was \$239. In 2001, monthly child care costs for an infant, the most expensive children to care for, was in the neighborhood of \$700. Today, parents can pay over \$1100/month for an infant to receive full-time day care. Care for preschool and school-age (part-time) children is less, although it is important to note that in Orange County the monthly cost of child care for all age groups, on average, ranges from \$800 to \$1,100.

These costs put private care out of the reach of most low- and middle-income families.

### **FEDERAL, STATE AND COUNTY SUBSIDY RESOURCES**

The subsidy programs, offered by all North Carolina counties and financed with public money, are the only hope that low-income families have of securing this quality, costly care. Parents making less than a prescribed income, currently based on 75% of state median income for most funds, and meeting certain eligibility criteria may be eligible for help to pay part of their child care costs. The amount of funding allocated to each county in North Carolina is determined by legislation and is directly affected by the amount of funding in the federal budget. In Orange County the majority of this funding is administered by the Department of Social Services. Child Care Services Association administers 1.8 million dollars for scholarships with funding from Smart Start, UNC, United Way and other funding sources.

If a family meets the eligibility criteria for the Orange County Department of Social Services, a portion of the cost of child care will be paid for them. Parents are free to choose a child care arrangement that best fits their needs as long as the provider chosen participates in the Subsidized Child Care Program. The amount the state pays for child care depends on the family's situational criteria, the family's income, and the cost of the child care provided. (See Attachment B for state

market rates paid by Orange County). Most families must qualify based on need and income, and are required to pay a percentage of child care costs based on their countable monthly income. The percentage depends on the number of people in the family, but ranges from 8 to 10 percent of income.

As mentioned above, additional sources of subsidy come from specialized funding that may target specific groups. Examples of this type of funding are Smart Start, More at Four, the UNC Chancellor's Fund, and the additional funding allocated by the Board of County Commissioners in the Orange County budget.

### **WAITING LISTS**

In recent years, the costs of and need for care have become so high that the demand for the subsidy system has far outweighed the supply. In Orange County, when insufficient funds are available to meet demand, waiting lists are implemented.

There have been long child care subsidy waiting lists for the last few years, with Fiscal Year 2005-2006 proving to be the worst. Not a single child was taken off of the waiting list at Social Services between March 2005 and June 30, 2006, so that some families had been waiting over a year to receive subsidy. While funding to Social Services has increased the last few years, the increase was not enough to cover all the families requiring subsidy when rising costs are taken into account. The state budget crisis has also affected funds available through Smart Start, causing them to either hold steady or decline in recent years. At the same time, child care providers in Orange County worked very hard to improve their quality by sending more of the staff to school, hiring better educated staff, improving their child-to-staff ratios and earning higher star ratings. To support these changes in quality, they needed to increase their tuition rates for care. Higher tuition rates mean higher payment rates for child care subsidy. Higher costs per child per month without a commensurate increase in funds available has meant that fewer children can be served and waiting lists have increased. It also means that fewer parents are able to afford the costs of care on their own.

The parent(s) in the majority of families both receiving subsidy and waiting are employed. The income generated by these working parents is simply not enough to be able to meet all the family's basic needs and afford child care. (See Attachment C for a list of the top employers of parents who are waiting for or currently receive Child Care Subsidy through the Orange County Department of Social Services.)

Child care subsidy waiting lists remain a critical issue for Orange County. Additional funds for fiscal year 2006-2007 were allocated by the state and the Board of County Commissioners in Orange County so that families who have been waiting the longest are now receiving subsidy. While Orange County is currently serving roughly 600 children in the subsidy program, there are still over 150 children in Orange County who are eligible for subsidy assistance, but are not receiving it due to lack of funds. These children and their families are waiting.

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### **DISCUSSION**

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#### **ISSUES**

Because of the various backgrounds and interests of the Task Force Members, subcommittees were created to allow participants to identify issues and attempt to solve problems specifically relevant to their pursuits. The consumer subcommittee consisted of county-wide focus groups offered on two separate evenings during the week, one in Hillsborough and one in Chapel Hill. The child care

provider subcommittee consisted of a discussion held at the Child Care Providers Association June Meeting. The business subcommittee met on three occasions at the Chapel Hill-Carrboro Chamber of Commerce. The committee consisted of large and small employers from the northern and southern portions of the county. For a list of all employer participants, please see Attachment D.

The following is a list of issues identified by the various subcommittees.

- The number one issue related to subsidy is the lack of sufficient funding so as to assure that all eligible families can receive needed service in a timely manner.
- Waiting for subsidy is a hardship on families trying to work.
- For parents with no child care and no way to afford the high costs, high quality is not as important as a safe place for the child(ren) that allows the parent to gain or maintain employment.
- Costs for child care are too high.
- Families need support from employers.
- Even a small amount of financial assistance would make a difference between working and losing a job.
- Orange County Government should explore the possibility of a county-run center for county employees and/or residents.
- Providers are paid rates for subsidy that are lower than what private paying parents are being charged.
- Continuity of care for children should be a priority.
- Employers are interested in child care so that they can have dependable employees who attend work regularly and who can focus on their jobs.
- There are many employers who are willing to support employees' child care needs, and who may be able to provide on-site child care or other support.
- All government employers in Orange County should provide some type of support for child care subsidies and be models for other employers.
- There are various models for employers to provide support for employees' child care needs including sponsorships, onsite child care centers and flexible spending programs.
- Some of the eligibility requirements of the subsidy program may actually penalize employees if they take advantage of employer financial incentives.
- Families whose income falls outside of the guidelines for scholarships or subsidies also have financial issues in attaining quality child care.
- Government should explore ways to incent private enterprise to aid employees with child care.

While participants did not agree on all issues, the one common thread through all discussions was the need for additional money for child care subsidies.

## **SOLUTIONS**

Based on discussions and feedback from the subcommittees outline above as well as on the charge given to the committee, the Task Force focused efforts on exploring possibilities for increasing private, business and public financial and in-kind contributions and support for child care.

The Task Force worked with local businesses and local business leaders to determine what kinds of information employers would find helpful when attempting to assist employees with their child care needs. The three main ideas that the business community expressed interest in were exploring different benefit models that might be tailored to suite individual business needs, investing in

scholarship and/or funding models that would allow businesses to contribute to existing subsidy programs for the benefit of their own employees or for the benefit of all, and building or contributing to the building of on-site centers designed to serve the needs of the business's employees.

## BENEFIT MODELS

There are several benefit models that employers can utilize to pay or help employees pay for child care expenses. Some, like the "cafeteria plans" are utilized more often by smaller businesses or as a portion of the benefit package at a larger employer. Standard benefit packages are more widely used and are found at most larger businesses.

Internal Revenue Code Section 125 describes an arrangement by which an employer establishes a plan so employees may choose to reduce pay before taxes (pre-tax contributions), thereby avoiding tax on those dollars used to purchase benefits. The amount set aside is exempt from federal and state income taxes and FICA (Social Security) and Medicare taxes for the employee, and it is exempt from the Social Security and Medicare payroll tax match for the employer.

Benefits that may be included in a Section 125 Plan include medical, dental, vision, group-term life, disability, and dependent care assistance. In Code Section 125, the IRS refers to these types of plans as "cafeteria plans." The term "cafeteria plan" is used by the IRS to describe any arrangement in which a participant has a choice between cash (taxable) and benefits (pre-tax).

The most common types of Section 125 Plans are explained below:

*Insurance Premium Conversion:* for payment by the employee of a portion of the cost for qualified insurance benefits, such as health, disability, or dental.

*Flex Plan or Flexible Benefit Plan:* Premium Conversion with Reimbursement Accounts (Medical, Dependent Care, Adoption Assistance).

*Full-Flex Plan or Cafeteria Plan:* a wide choice of benefits, usually with employer credits that the employee may allocate toward the cost of one or more benefits (including cash).

In addition to these "cafeteria" style plans, employers may opt to provide child care costs as a direct benefit in a standard plan, similar to health, dental and life insurance plans offered by many large employers. In these cases, employees without children would get none of the benefit, much like an employee who does not use the employer health plan.

## SCHOLARSHIP AND OTHER FUNDING MODELS

For businesses that are not able to adjust their benefit plans, scholarship and other funding models are another option for assisting employees with child care needs.

*Voucher Model:* Employers contract with child care providers or child care centers in the community for services for their employees. Parents are given vouchers for all or part of their child care costs and the child care programs redeem the vouchers for payment through the employer.

*Reimbursement Model:* Employees choose the child care arrangement best suited to their needs (child care center, family child care home, after-school program) and then receive a reimbursement from the company for some portion of the costs.

*Purchase of Space:* The employer arranges to “own” a specified number of spaces in a local child care program. Parent fees may cover most or all of the cost of any spaces used, but the company typically covers all or a portion of the cost of the unused spaces so that the program can afford to keep the spaces open for the company.

*Consortium Model:* A number of employers come together on an industrial or geographic basis and pool resources to conduct joint child care projects. Consortium members generally share start-up costs and in return receive priority enrollment for their employees’ children.

Sometimes a specific number of slots are set aside for each company. Operating costs, however, are usually funded through a combination of parent fees and contributions from the employers. Member corporations may choose to subsidize their employees’ fees through a voucher or reimbursement program (see first option).

*On-Site or Off-Site Center:* An on-site or off-site center sponsored by an employer at the work site or at another location. The center can be operated by the employer or by a nonprofit or for-profit child care provider. Employers usually pay all start-up costs; any operating losses that occur in the early stages of the center before it is fully enrolled; and some portion of the ongoing operational expenses. Parent fees cover the balance of the center’s operating expenses.

#### CURRENT PRACTICES

There are currently several Orange County employers that have established child care support for their employees and/or are doing innovative things to provide additional money for child care in the county.

*Subsidy Reimbursement:*

Employers can pay back in to the subsidy system for subsidy dollars used by their employees.

Orange County Government currently participates in this program and is helping to free up subsidy dollars for other families.

*On-Site Child Care:*

Employers run centers on-site for their employees, often at a reduced rate.

Carol Woods has an on-site five star center that is run by the YMCA. The center accepts age eligible children of employees and is subsidized at a rate of \$225/month for Carol Woods’ employees. There is no cost for children of YMCA employees to attend the center. The Center is also open to non-Carol Woods affiliated children between the ages of three and five at a regular rate.

UNC and UNC Health operate Victory Village, a child care center that serves students and employees of the university and the hospital. This particular center does not subsidize employees and students because of the scholarship program offered by UNC.

SAS, Inc. a Cary-based corporation partnered with Bright Horizons to run its two on-site child care centers, and two near-site centers. The day-to-day operations are managed by Bright Horizons, a child care center. SAS subsidizes the cost of child care in the centers for its employees, so that they play a flat rate of \$300 a month.

Also partnering with Bright Horizons in the State of North Carolina are GlaxoSmithKline, Blue Cross/Blue Shield, IBM, Duke University, and Wachovia.

*Scholarship Funds/Matching Funds:*

Employers set up scholarship funds so that their employees get help to pay for child care. This is similar to the government run subsidy program, but the funds are private, and are earmarked for the employees of a specific business. These programs can be managed by the same groups that manage regular subsidy funds; Orange County Social Services and Child Care Services Association. The amount of money committed by the employer may also be matched by Orange County under the Department of Social Services scholarship plan.

UNC works with Child Care Services Association to fund scholarships for students and university employees. Students give to their own scholarship fund via activity fees, and the university donates money to directly subsidize eligible employees.

*Direct Donations:*

Direct donations can be made to subsidy programs to help alleviate the waiting by all families. This method is used more often by public entities.

The Town of Chapel Hill donates \$10,000 annually to Child Care Services Association to support child care in Orange County.

The Town of Carrboro donates \$5,000 annually to Child Care Services Association to support child care in Orange County.

*Underwriting:*

Costs of starting up or running a child care program can be underwritten by donating space, utilities, etc. to help lower costs of care.

Orange County currently donates space utilized by several child care centers in the county, including Cedar Grove Day Care Center and Community School for People Under 6.

*Benefit Options:*

Many employers in Orange County, including Orange County Government, offer flexible spending accounts and/or other benefit plans to their employees that aid families in meeting their child care needs.

POSSIBLE STRATEGIES

Based on the information above provided to the Task Force, the following possible strategies were identified.

1. Seek additional funds for subsidy including requests to government entities and private funding organizations.
2. Develop partnerships with employers to create additional opportunities to maximize resources. This may include sponsorships, matching funds, benefit packages, direct contributions for subsidies or direct provision of child care.
3. Identify alternative incentives available for employers to provide to their employees that will not adversely impact any subsidy payments. Provide information to all employers on subsidy rules and these alternatives.
4. Continue to explore other child care models that may work for local employers.
5. Initiate a marketing campaign to inform employers of the role that child care plays in their workplace and educate employers regarding options to assist their employees in securing affordable, quality care.
6. Plan for child care sites at new large developments.

7. Explore the possibility of child care sites at public schools, and plan for these sites when building new schools.
8. Explore expediting processes, tax incentives, and/or no interest loans for new child care programs trying to open up.

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## RECOMMENDATIONS

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Based on the subcommittee reports and the initial charge of the Task Force, the group compiled the following list of recommendations to the Board of County Commissioners.

1. Establish a baseline for subsidy programs so that performance can be measured. Include total subsidy dollars, average length of time on wait list before receiving assistance, and total number of unique funders.
2. Continue to seek additional support for child care subsidies from all county employers.
3. Request that the local chambers of commerce continue work with local businesses and county agencies to educate and include more employers in creative problem solving regarding child care.
4. Explore financial and nonfinancial incentives, including but not limited to tax breaks, special recognition, etc., for employers who assist employees with child care needs.
5. Request that county staff work with schools, developers, UNC, Twin Creeks, Carolina North, Durham Technical Community College and other entities that may be expanding their sites so that child care needs will be considered during new development.
6. Request that county staff work on efforts to educate the public on the value of early child development.
7. Agencies who provide subsidy money should explore issues of access, including but not limited to common applications.
8. Request that Orange County Government, UNC, Town of Chapel Hill, Town of Carrboro, and other agencies, at a minimum, maintain their current level of support.

It is recommended that the Social Services Board report back to the Board of County Commissioners annually on the activities that have occurred and on the progress being made in these areas, particularly on the effort to increase financial support for subsidy programs.