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GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

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SENATE BILL DRS15440-LUxfa-165C

Short Title:	Child Care Omnibus.	(Public)
Sponsors:	Senators Chitlik and Chaudhuri (Primary Sponsors).	
Referred to:		

A BILL TO BE ENTITLED

AN ACT TO MAKE VARIOUS CHANGES UNDER THE LAWS PERTAINING TO CHILD CARE AND TO APPROPRIATE FUNDS FOR THOSE PURPOSES.

The General Assembly of North Carolina enacts:

PART I. INCREASE CHILD CARE SUBSIDY RATES/ESTABLISH RATE FLOOR

SECTION 1.1. Beginning October 1, 2026, the Department of Health and Human Services, Division of Child Development and Early Education, shall increase the child care subsidy market rates to the seventy-fifth percentile as recommended by the 2023 Child Care Market Rate Study for children in three-, four-, and five-star-rated child care centers and homes.

SECTION 1.2. Beginning October 1, 2026, provisions of payment rates for child care providers in counties that have a county rate below the State rate for center-based and home-based care are as follows:

(1) Except as applicable in subdivision (2) of this section, payment rates shall be set at the seventy-fifth percentile statewide market rate as recommended by the 2023 Child Care Market Rate Study for children birth through 5 years of age for licensed child care centers and homes.

(2) If it can be demonstrated that the application of the statewide rate to a county with fewer than 50 children in each age group is lower than the county market rate and would inhibit the ability of the county to purchase child care for low-income children, then the county market rate may be applied.

SECTION 1.3. There is appropriated from the General Fund to the Department of Health and Human Services, Division of Child Development and Early Education, the sum of one hundred ten million dollars ($110,000,000) in recurring funds beginning in the 2026-2027 fiscal year to implement the market rate increases and to establish a floor for child care subsidy rates as set forth in Sections 1.1 and 1.2 of this Part.

PART II. REINSTITUTE FUNDING FOR CHILD CARE STABILIZATION GRANTS

SECTION 2.1. There is appropriated from the General Fund to the Department of Health and Human Services, Division of Child Development and Early Education (Division), the sum of fifty million dollars ($50,000,000) in nonrecurring funds for the 2026-2027 fiscal year to reinstitute the compensation grants portion of the child care stabilization grants.

SECTION 2.2. This Part is effective when it becomes law.

PART III. MATCHING GRANT FUNDS FOR COUNTIES AND PRIVATE EMPLOYERS TO ASSIST WITH CAPACITY BUILDING IN CHILD CARE

SECTION 3.1. There is appropriated from the General Fund to the Department of Health and Human Services, Division of Child Development and Early Education (Division), the sum of fifty million dollars ($50,000,000) in nonrecurring funds for the 2026-2027 fiscal year to be used for grants to counties and private employers that provide assistance with capacity building in child care in this State, including, but not limited to, (i) building construction, renovation, upfitting, or improvements, (ii) expansion costs, (iii) furniture and equipment, or (iv) playground installation. The Division shall award grants under this section pursuant to criteria established by the Division in accordance with federal law and guidance. These grants shall be one-time awards to assist with child care initiatives as established by the Division. Counties or private employers seeking to receive funds under this section shall provide documentation of a twenty-five percent (25%) match as a condition of receiving these State funds. A county or private employer receiving grant funds under this Part may use up to nine percent (9%) of the State funds awarded for administrative costs.

PART IV. CHILD CARE FOR CHILD CARE PROVIDERS PILOT PROGRAM

SECTION 4.1. There is appropriated from the General Fund to the Department of Health and Human Services, Division of Child Development and Early Education (Division), the sum of sixty million dollars ($60,000,000) in nonrecurring funds for the 2026-2027 fiscal year. These funds shall be used to establish a two-year, statewide pilot program that provides child care expansion assistance grants for child care providers providing direct care and employed full time by any licensed child care program in this State to assist in recruiting and retaining employees necessary to expand the supply of licensed child care to additional children from birth through 5 years of age by ensuring that unaffordable child care is not a barrier to work for these employees. For purposes of this Part, "child care provider" includes lead teachers, teachers, teacher assistants, and administrators.

SECTION 4.2. A child care provider providing direct care who is eligible for a child care expansion assistance grant pursuant to this section shall earn at or below eighty-five percent (85%) of the State median income and be employed full time at a licensed child care center or family child care home. For purposes of this Part, "full time" means at least 32 hours per week. If a licensed family child care home provider applies for a child care assistance grant for the provider's own children, that provider must provide care for additional children in the provider's program equal to the number of the provider's own children for which a child care expansion assistance grant is provided.

SECTION 4.3. Any licensed child care program may apply to the Division of Child Development and Early Education (Division) for a child care expansion assistance grant for eligible employees only when there is capacity at the program to serve an eligible employee's child without displacing other children already in care in the program. When a child care program's application for a child care expansion assistance grant is approved, the Division shall pay seventy-five percent (75%) of the published child care tuition rates to the licensed program for each eligible staff member for up to two children. Child care program employers shall cover a minimum of twenty-five percent (25%) of the published tuition rate for each child. Child care expansion assistance grants may be distributed monthly or quarterly, at the Division's discretion, so long as the eligible employee remains employed full time at the licensed child care program. The program operator or administrator is responsible for informing the Division when an eligible employee is no longer employed at the program. Failure to inform the Division of such departure within 30 days of separation may result in the program being required to return distributed grant funds for the eligible employee postseparation from employment.

SECTION 4.4. The Division of Child Development and Early Education (Division) shall make the child care expansion assistance grants provided in accordance with the pilot program available statewide in all counties. However, the Division shall prioritize counties with the highest unmet demand or longest wait lists for subsidized child care funded by the federal

Child Care Assistance Program and shall work to ensure that child care expansion assistance grants are distributed to geographically diverse areas across the State. A child care program licensed in this State does not have to participate in the federal Child Care Assistance Program to apply for a child care expansion assistance grant for eligible employees.

SECTION 4.5. The Division of Child Development and Early Education (Division) shall submit a progress report to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division of the General Assembly by March 31, 2027, with a final report by December 31, 2028, on the pilot program that includes the following:

(1) The number of licensed child care programs participating in the pilot program, by setting (center or family child care home) and county.

(2) The number of child care providers participating in the pilot program, by position or title, hire date (newly employed versus already employed), and county.

(3) The number of new licensed child care slots created as a result of the pilot, by age group and county.

(4) The number of additional children aged birth to 5 years served as a result of the pilot, by age group and county.

PART V. USE OF STATE-OWNED PROPERTY FOR CHILD CARE CENTERS FOR STATE EMPLOYEES

SECTION 5.1. The Department of Administration shall report to the Joint Legislative Oversight Committee on Health and Human Services and the Joint Legislative Commission on Governmental Operations, no later than March 31, 2027, on the feasibility and advisability of using obsolete or underutilized State-owned buildings (available buildings) to house child care facilities giving child care priority to State employees. The report shall include the following:

(1) Location of each available building.

(2) Estimated costs for upfitting each property to meet daycare licensing standards.

(3) Estimated costs for asbestos and lead remediation.

(4) Barriers to the available buildings' use as a child care facility.

SECTION 5.2. Any project undertaken by the State to build or renovate property having a budget greater than five million dollars ($5,000,000) shall include a child care center or adult day care center if more than 250 people would work in the building. This requirement includes current projects which have not broken ground by July 1, 2026, unless one or both of the following exceptions apply:

(1) Inclusion of either type of center would delay the project by six months or more.

(2) Inclusion of either type of center would increase the project cost by ten percent (10%) or more.

PART VI. CHILD CARE FOR STATE EMPLOYEES

SECTION 6.1. The Division of Child Development and Early Education shall establish a pilot program for on-site child care for State employees as follows:

(1) The Division of Child Development and Early Education shall contract with a private commercial child care provider to establish three child care centers for State employees' use to be established on State-owned property that is unused or underutilized.

(2) Priority in contracting shall be given to commercial child care providers who currently operate five or fewer facilities and provide high quality child care.

(3) The Division of Child Development and Early Education must include the following terms in the contract with the commercial child care providers:

a. The child care facility must operate an apprenticeship program in conjunction with a public or private university or community college who operates an early child care education program.

b. The child care center must comply with the requirements established by the Division of Child Development and Early Education for the apprenticeship program.

c. The child care center must maintain the operation of the apprenticeship program for so long as the child care center is housed in State-owned property and the university or community college is willing to continue the partnership.

d. The State will provide the upfit cost of the space to meet the licensure requirements at reasonable levels that are customary at the operators' other facilities and those similarly situated and provide use of the space rent free, notwithstanding the provisions of G.S. 146-29.1.

e. The lease terms for State-owned property must be approved as required by G.S. 146-27.

SECTION 6.2. The Division of Child Development and Early Education shall create the requirements for the apprenticeship program and pair the child care centers with a university or community college early education program utilizing parameters similar to the Durham Childcare Apprenticeship Program.

SECTION 6.3. There is appropriated from the General Fund to the Department of Health and Human Services the sum of five million dollars ($5,000,000) in recurring funds beginning in the 2026-2027 fiscal year for the Division of Child Development and Early Education's use in establishing the child care centers as required by Section 6.1 of this Part.

SECTION 6.4. If any expenses are incurred by the State for asbestos or lead remediation in establishing the child care centers required by Section 6.1 of this Part, the State shall be eligible for reimbursement from the Asbestos and Lead Remediation Fund subject to the rules of the fund for up to five hundred thousand dollars ($500,000).

SECTION 6.5. By April 1, 2028, the Division of Child Development and Early Education shall report on and make recommendations to the Joint Legislative Oversight Committee on Health and Human Services, the Joint Legislative Oversight Committee on General Government, and the Fiscal Research Division the status of the implementation of the pilot program, including successes, concerns, problems encountered, enrollment, and expenditures.

SECTION 6.6. Sections 6.3 and 6.4 of this Part are effective July 1, 2026. The remainder of this Part is effective when it becomes law.

PART VII. ON-SITE CHILD CARE FOR THIRD-SHIFT FIRST RESPONDERS

SECTION 7.1. There is appropriated from the General Fund to the Department of Health and Human Services the sum of six million dollars ($6,000,000) in nonrecurring funds for the 2026-2027 fiscal year for a pilot program to provide counties grants to establish third-shift child care for first responders, with priority to be given to third-shift facilities operated in unused or underutilized county-owned buildings. By April 1, 2028, the Department of Health and Human Services shall report on and make recommendations to the Joint Legislative Oversight Committee on Health and Human Services, the Joint Legislative Oversight Committee on General Government, and the Fiscal Research Division regarding the implementation of the pilot program, including successes, concerns, problems encountered, enrollment, and expenditures.

PART VIII. ON-SITE CHILD CARE AT EACH NORTH CAROLINA COMMUNITY COLLEGE AND COLLEGE IN THE UNIVERSITY OF NORTH CAROLINA SYSTEM

ON-SITE CHILD CARE AT COMMUNITY COLLEGES

SECTION 8.1.(a) Report. – The State Board of Community Colleges shall study and report to the Joint Legislative Education Oversight Committee, the Joint Legislative Oversight Committee on Health and Human Services, and the Fiscal Research Division of the General Assembly, no later than March 31, 2027, on the feasibility and advisability of implementing a publicly available child care program on every community college campus that offers priority enrollment to the children of community college employees and students. The report shall include the following:

(1) Recommendations for implementing the child care program.
(2) Estimated costs for implementation and maintenance of the child care program.
(3) Return on investment of the child care program.
(4) Issues related to historical and ongoing utilization of grants or other funding.
(5) Barriers to implementation of the child care program.

SECTION 8.1.(b) There is appropriated from the General Fund to the Community Colleges System Office the sum of one hundred thousand dollars ($100,000) in nonrecurring funds for the 2026-2027 fiscal year for the study required by subsection (a) of this section.

CHILD CARE COMPETITIVE GRANTS FOR COMMUNITY COLLEGES

SECTION 8.2.(a) There is appropriated from the General Fund to the Community Colleges System Office the sum of thirty million dollars ($30,000,000) in nonrecurring funds for the 2026-2027 fiscal year to develop and implement a competitive request for proposal (RFP) process for child care funding for community colleges with early childhood education (ECE) degrees on their campuses. Funding shall be awarded based on (i) ECE program quality, (ii) demonstrated student and faculty need, and (iii) regional child care availability. The funds shall be used to establish a new child care program on a community college campus with 50 or more slots or expand an existing child care program on a community college campus to 50 slots. Each community college eligible for funding under this section may receive a maximum grant of three million dollars ($3,000,000). The funds may be used for subsidies for students, faculty and staff, or one-time capital expenditures to launch programs.

SECTION 8.2.(b) There is appropriated from the General Fund to the Community Colleges System Office the sum of fifty thousand dollars ($50,000) in nonrecurring funds for the 2026-2027 fiscal year to provide awareness about existing child care benefits and programs to faculty, staff, and students.

ON-SITE CHILD CARE AT UNIVERSITIES/COLLEGES

SECTION 8.3.(a) The Board of Governors of The University of North Carolina shall study and report to the Joint Legislative Education Oversight Committee, the Joint Legislative Oversight Committee on Health and Human Services, and the Fiscal Research Division of the General Assembly, no later than March 31, 2027, on the feasibility and advisability of implementing a publicly available child care program at each constituent institution campus that offers priority enrollment to the children of university employees and students. The report shall include:

(1) Recommendations for implementing the child care program.
(2) Estimated costs for implementation and maintenance of the child care program.
(3) Return on investment of the child care program.
(4) Issues related to historical and ongoing utilization of grants or other funding.

(5) Barriers to implementation of the child care program.

SECTION 8.3.(b) There is appropriated from the General Fund to the Board of Governors of The University of North Carolina the sum of one hundred thousand dollars ($100,000) in nonrecurring funds for the 2026-2027 fiscal year for the study required by subsection (a) of this section.

PART IX. NORTH CAROLINA CHILD CARE FINANCE AGENCY

SECTION 9.1.(a) The General Statutes are amended by adding a new Chapter to read:

"**Chapter 122F.**

"**North Carolina Child Care Finance Agency.**

"**§ 122F-1. Short title.**

This Chapter shall be known and may be cited as the "North Carolina Child Care Finance Agency Act."

"**§ 122F-2. Legislative findings and purposes.**

(a) The General Assembly hereby finds and declares the following:

(1) That there exists in the State of North Carolina a serious shortage of accessible and affordable child care. This statewide shortage severely impacts the State's workforce and economy and is inimical to the health, safety, welfare, and prosperity of all residents of the State and to the sound growth of North Carolina's economy.

(2) That private enterprise and investment have not been able to produce, without assistance, the needed supply or rehabilitation of child care facilities to provide sufficient child care for the State's workforce, including low-income families. It is imperative that the supply of child care for families be increased; and that private enterprise and investment be encouraged to sponsor, build, rehabilitate, and operate child care for families to remove barriers to employment and to foster healthy development for children.

(3) That the purposes of this Chapter are to provide financing for child care construction, new or rehabilitated, for individuals providing high-quality child care to families and facilitate the matching and development of child care providers with organizations seeking child care for their workforce.

(4) That faith-based organizations are eligible for financing for child care construction that provides high-quality child care.

(5) That businesses that make child care accessible to their employees are eligible for financing for child care construction that provides high-quality child care.

(b) In accomplishing these public purposes, the North Carolina Child Care Finance Agency, a public agency and an instrumentality of the State, is acting in all respects for the benefit of the people of the State in the performance of essential public functions and serves a public purpose in improving and otherwise promoting their health, welfare, and prosperity. The North Carolina Child Care Finance Agency is empowered to act on behalf of the State of North Carolina and its people in serving this public purpose for the benefit of the general public.

(c) Whenever feasible, the North Carolina Child Care Finance Agency shall prioritize the following policy goals in its actions:

(1) Give first priority in its programs to assisting child care providers with fewer than 10 facilities.

(2) Undertake its programs in the areas where the greatest child care needs exists.

(3) Give priority to projects for child care facilities with licenses that indicate high-quality child care, as determined by the North Carolina Child Care Commission.

(4) Incentivize child care providers, including faith-based organizations, to provide full-day child care.

(5) Encourage private employers to provide on-site child care to employees through advising on information for research-based solutions, including methods and guides to financing facilities and child care providers as partners and providing information to employers on high-quality child care providers to partner with in providing on-site child care.

(6) Partner with the State Board of Community Colleges to facilitate apprenticeships with high-quality child care providers for students at community colleges and other institutions of higher education.

(7) Establish grants to support these policy goals from available funds, including funds appropriated for this purpose by the State and funds from any federal or private agency, corporation, association, or person.

"**§ 122F-3. Definitions.**

The following definitions apply in this Chapter:

(1) Agency. – The North Carolina Child Care Finance Agency created by this Chapter.

(2) Bonds or notes. – The bonds or the bond anticipation notes or construction loan notes authorized to be issued by the Agency under this Chapter.

(3) Child care facility. – As defined in G.S. 110-86. For the purposes of this Chapter, a child care facility does not include a residential dwelling where child care is provided.

(4) Construction loan. – A loan made by a lending institution or by the Agency to any person for the purpose of financing construction of a child care facility.

(5) Federally insured securities. – An evidence of indebtedness secured by a first mortgage lien on child care centers and insured or guaranteed as to repayment of principal and interest by the United States or any agency or instrumentality thereof.

(6) Governmental agency. – Any department, division, public agency, political subdivision, or other public instrumentality of the State, the federal government, any other State or public agency, or any two or more thereof.

(7) Mortgage lenders. – Any bank or trust company, savings bank, national banking association, savings and loan association, or building and loan association, life insurance company, mortgage banking company, the federal government, and any other financial institution authorized to transact business in the State.

(8) Mortgage or mortgage loan. – A mortgage loan for child care facilities, including, without limitation, a mortgage loan to finance, either temporarily or permanently, the construction, rehabilitation, improvement, or acquisition and rehabilitation or improvement of a child care facility and a mortgage loan insured or guaranteed by the United States or an instrumentality thereof or for which there is a commitment by the United States or an instrumentality thereof to insure such a mortgage. A mortgage obligation may be evidenced by a security document and secured by a lien upon real property, including a deed of trust and land sale agreement.

(9) Mortgagee. – The owner of a beneficial interest in a mortgage loan, the servicer for the owner of a beneficial interest in a mortgage loan, or the trustee for a securitized trust that holds title to a beneficial interest in a mortgage loan.

(10) Obligations. – Any bonds or bond anticipation notes authorized to be issued by the Agency under the provisions of this Chapter.

(11) Rehabilitation. – The renovation or improvement of a child care facility by the owner or operator of that facility.

(12) Rehabilitation loan. – A loan made by a lending institution or by the Agency to any person for the purpose of financing renovation of a child care facility.

(13) State. – The State of North Carolina.

"**§ 122F-4. North Carolina Child Care Finance Agency.**

(a) There is hereby created a body politic and corporate to be known as the "North Carolina Child Care Finance Agency" which shall be constituted a public agency and an instrumentality of the State for the performance of essential public functions.

(b) The Agency shall be governed by a board of directors composed of 12 members for a term of four years beginning July 1. The directors of the Agency shall be residents of the State and shall not hold other public office.

(c) The Agency shall be appointed as follows:

(1) Six members appointed by the Governor as follows:

a. One member with experience in workforce needs.

b. One member with experience as a licensed child care provider.

c. One member with experience as a specialist in child care licensure.

d. One member with experience in construction of child care facilities.

e. One member with experience in commercial small business lending.

f. One member with experience in real estate development.

(2) Three members appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate as follows:

a. One member with experience with a savings and loan institution.

b. One member with experience as a licensed child care provider.

c. One member with experience in construction lending.

(3) Three members appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives as follows:

a. One member with experience with a mortgage-servicing institution.

b. One member with experience as a licensed child care provider.

c. One member with experience in a business that makes on-site child care available to employees.

(d) Any vacancy for a person appointed under subdivision (1) of subsection (c) of this section shall be filled by appointment of the Governor for the remainder of the unexpired term. Any appointment by the General Assembly shall be made in accordance with G.S. 120-121 and vacancies in those appointments shall be filled in accordance with G.S. 120-122.

(e) Any member of the Board of Directors shall be eligible for reappointment. Each member of the Board of Directors may be removed by the Governor for misfeasance, malfeasance, or neglect of duty after reasonable notice and a public hearing, unless the same are in writing expressly waived. Each member of the Board of Directors before entering upon the duties shall take an oath of office to administer the duties of the office faithfully and impartially, and a record of such oath shall be filed in the office of the Secretary of State.

(f) The Governor shall designate from among the members of the Board a chair and a vice-chair. The terms of the chair and vice-chair shall extend to the earlier of either two years or the date of expiration of their then current terms as members of the Board of Directors of the Agency. The Agency shall exercise all of its prescribed statutory powers independently of any principal State Department except as described in this Chapter.

(g) The Executive Director of the Agency shall be appointed by the Board of Directors, subject to approval by the Governor. All staff and employees of the Agency shall be appointed by the Executive Director, subject to approval by the Board of Directors; shall be eligible for participation in the State Employees' Retirement System; and shall be exempt from the provisions of the North Carolina Human Resources Act. All employees other than the Executive Director

shall be compensated in accordance with the salary schedules adopted pursuant to the North Carolina Human Resources Act. The salary of the Executive Director shall be fixed by the Board of Directors. The salary of the Executive Director and all staff and employees of the Agency shall not be subject to any limitations imposed pursuant to any salary schedule adopted pursuant to the terms of the North Carolina Human Resources Act. The Board of Directors shall, subject to the approval of the Governor, elect and prescribe the duties of any other officers it finds necessary or advisable, and the Board of Directors shall fix the compensation of these officers.

(h) The books and records of the Agency shall be maintained by the Agency and shall be subject to periodic review and audit by the State.

(i) No part of the revenues or assets of the Agency shall inure to the benefit of or be distributable to its members or officers or other private persons. The members of the Agency shall receive no compensation for their services but shall be entitled to receive, from funds of the Agency, for attendance at meetings of the Agency or any committee thereof and for other services for the Agency reimbursement for such actual expenses as may be incurred for travel and subsistence in the performance of official duties and such per diem as is allowed by law for members of other State boards, commissions, and committees.

(j) The Executive Director shall administer, manage, and direct the affairs and business of the Agency, subject to the policies, control, and direction of the members of the Agency Board of Directors. The Secretary of the Agency shall keep a record of the proceedings of the Agency and shall be custodian of all books, documents, and papers filed with the Agency, the minute book or journal of the Agency, and its official seal. The Secretary may have copies made of all minutes and other records and documents of the Agency and may give certificates under the official seal of the Agency to the effect that such copies are true copies, and all persons dealing with the Agency may rely upon such certificates.

(k) Seven members of the Board of Directors of the Agency shall constitute a quorum and the affirmative vote of a majority of the members present at a meeting of the Board of Directors duly called and held shall be necessary for any action taken by the Board of Directors of the Agency, except adjournment; provided, however, that the Board of Directors may appoint an executive committee to act on behalf of said Board during the period between regular meetings of said Board, and said committee shall have full power to act upon the vote of a majority of its members. No vacancy in the membership of the Agency shall impair the rights of a quorum to exercise all the rights and to perform all the duties of the Agency.

"**§ 122F-5. General powers.**

The Agency shall have all of the powers necessary or convenient to carry out the provisions of this Chapter, including the power:

(1) To make or participate in the making of mortgage loans, construction loans, and rehabilitation loans to licensed child care providers for rehabilitation and construction; provided, however, that such loans shall be made only upon the determination by the Agency that mortgage loans, construction loans, and rehabilitation loans are not otherwise available wholly or in part from private lenders upon reasonably equivalent terms and conditions.

(2) To collect and pay reasonable fees and charges in connection with making, purchasing, and servicing its loans, notes, bonds, commitments, and other evidences of indebtedness.

(3) To acquire on a temporary basis real property, or an interest therein, in its own name, by purchase, transfer, or foreclosure, where such acquisition is necessary or appropriate to protect any loan in which the Agency has an interest and to sell, transfer, and convey any such property to a buyer and, in the event such sale, transfer, or conveyance cannot be effected with reasonable promptness or at a reasonable price, to rent or lease such property to a tenant pending such sale, transfer, or conveyance.

(4) To sell, at public or private sale, all or any part of any mortgage or other instrument or document securing a loan of any type permitted by this Chapter.

(5) To procure insurance against any loss in connection with its operations in such amounts, and from such insurers, as it may deem necessary or desirable.

(6) To consent, whenever it deems it necessary or desirable in the fulfillment of its corporate purposes, to the modification of the rate of interest, time of payment of any installment of principal or interest, or any other terms, of any mortgage loan, mortgage loan commitment, construction loan, rehabilitation loan, contract, or agreement of any kind to which the Agency is a party.

(7) To borrow money as herein provided to carry out and effectuate its corporate purposes and to issue its obligation as evidence of any such borrowing.

(8) To include in any borrowing such amounts as may be deemed necessary by the Agency to pay financing charges, interest on the obligations for a period not exceeding two years from their date, consultant, advisory, and legal fees and such other expenses as are necessary or incident to such borrowing.

(9) To make and publish rules and regulations respecting its lending programs and such other rules and regulations as are necessary to effectuate its corporate purposes.

(10) To provide technical and advisory services to sponsors, builders, and developers of child care facilities.

(11) To promote research and development in scientific methods of constructing low-cost child care facilities of high durability and improved safety and utility.

(12) To service or contract for the servicing of mortgage loans, construction loans, and rehabilitation loans, and to make and execute agreements, contracts, and other instruments necessary or convenient in the exercise of the powers and functions of the Agency under this Chapter, including contracts with any person, firm, corporation, governmental agency, or other entity, and each and any North Carolina governmental agency is hereby authorized to enter into contracts and otherwise cooperate with the Agency to facilitate the purposes of this Chapter.

(13) To receive, accept, administer, and comply with the conditions and requirements respecting any appropriation or any gift, grant, or donation of any property or money, including the proceeds of general obligation bonds of the State.

(14) To develop a financing application for providers with less than 10 child care centers to seek financing through a common application from multiple financing providers, in order to reduce administrative burdens and facilitate access to funds for facilities and growth financing.

(15) To establish a program of grants that support the policy goals established by this Chapter to increase the supply of child care for families from funds made available for that purpose.

(16) To establish a clearinghouse to connect high-quality child care providers with potential workforce partners seeking on-site child care for employees.

(17) To partner with the State Board of Community Colleges to facilitate apprenticeships with high-quality child care providers for students at community colleges and other institutions of higher education.

(18) To sue and be sued in its own name, plead and be impleaded.

(19) To establish and maintain an office for the transaction of its business in the City of Raleigh and at such place or places as the Board of Directors deems advisable or necessary in carrying out the purposes of this Chapter.

(20) To adopt an official seal and alter the same at pleasure.

(21) To adopt bylaws for the regulation of its affairs and the conduct of its business and to prescribe rules, regulations, and policies in connection with the performance of its functions and duties.

(22) To employ fiscal consultants, engineers, attorneys, real estate counselors, appraisers, and such other consultants and employees as may be required in the judgment of the Agency and to fix and pay their compensation from funds available to the Agency therefor.

(23) To purchase or to participate in the purchase and enter into commitments by itself or together with others for the purchase of federally insured securities; provided, however, that the Agency shall first determine that the proceeds of such securities will be utilized for the purpose of making new mortgage loans to licensed child care providers, all as specified in regulations to be adopted by the Agency.

(24) To advise the Governor regarding the coordination of child care facilities.

(25) To acquire, hold, rent, encumber, transfer, convey, and otherwise deal with real property and utilities in the same manner as a private person or corporation, subject only to the approval of the Governor and Council of State. The Board of Directors may pledge or encumber income and assets of the Agency to secure financing for real property.

(26) To select and retain, subject to the approval of the Local Government Commission, the financial consultants, underwriters, and bond attorneys to be associated with the issuance of any bonds and to pay for services rendered by underwriters, financial consultants, or bond attorneys out of the proceeds of any such issue with regard to which the services were performed.

"**§ 122F-6. Rules and regulations governing Agency activity.**

(a) The Agency shall from time to time adopt, modify, or repeal rules and regulations governing the purchase of federally insured securities by the Agency and the purchase and sale of mortgage loans, construction loans, and rehabilitation loans and the application of the proceeds thereof, including rules and regulations as to any or all of the following:

(1) Procedures for the submission of requests or the invitation of proposals for the purchase and sale of mortgage loans, construction loans, rehabilitation loans, or for the purchase of federally insured securities.

(2) Limitations or restrictions as to the number, location, or other qualifications or characteristics of child care facilities to be financed by mortgage loans, construction loans, and rehabilitation loans.

(3) Restrictions as to the interest rates on mortgage loans, construction loans, and rehabilitation loans or the return which may be realized by lenders on any mortgage loans, construction loans, and rehabilitation loans, or on the sale of federally insured securities to the Agency.

(4) Requirements as to commitments by lenders with respect to the use of the proceeds of sale of any federally insured securities.

(5) Schedules of any fees and charges necessary to provide for expenses and reserves of the Agency.

(6) Any other matters related to the duties and the exercise of the powers of the Agency to purchase and sell mortgage loans, construction loans, and rehabilitation loans or to purchase federally insured securities.

Such rules and regulations shall be designed to effectuate the general purposes of this Chapter and the following specific objectives: (i) the construction of decent, safe, and sanitary full-day child care facilities; (ii) the rehabilitation of present child care facilities; (iii) increasing the supply and access to affordable child care for all families, regardless of income level; (iv) the encouraging of private enterprise and investment to sponsor, build, and rehabilitate child care

facilities; and (v) the restriction of the financial return and benefit to that necessary to protect against the realization by lenders of an excessive financial return or benefit as determined by prevailing market conditions.

(b) The interest rate or rates and other terms of federally insured securities or mortgage loans, construction loans, and rehabilitation loans purchased from the proceeds of any issue of bonds of the Agency shall be at least sufficient to assure the payment of said bonds and the interest thereon as the same become due from the amounts received by the Agency in repayment of such federally insured securities or such loans and interest thereon.

(c) The Agency shall provide that mortgage loans, construction loans, and rehabilitation loans are forgivable in full after 15 years if the licensed child care provider (i) serves at least twenty-five percent (25%) more children than when the loan was received and (ii) at least fifty percent (50%) of the children served by the child care facility receive a child care subsidy.

(d) The Agency shall require as a condition of the purchase of federally insured securities from a mortgage lender and the purchase or the making of a commitment to purchase mortgage loans from a mortgage lender where the Agency has not given its approval prior to the initial making of the mortgage loan that such mortgage lender shall on or prior to the one-hundred-eightieth day (or such earlier day as may be prescribed by rules and regulations of the Agency) following the receipt of the sale proceeds have entered into written commitments to make, and shall thereafter proceed as promptly as practicable to make from such sale proceeds, new mortgage loans with respect to child care facilities in the State having a stated maturity of not less than 20 years from the date thereof in an aggregate principal amount equal to the amount of such sale proceeds. The Agency shall not purchase nor make commitment to purchase mortgage loans, federally insured securities, or other obligations from a mortgage lender from which it has previously purchased federally insured securities or mortgage loans initially made without such prior approval unless said mortgage lender has either made or entered into written commitments to make such new mortgage loans.

"**§ 122F-7. Mortgage insurance authority.**

(a) The Agency may upon application of a proposed mortgagee insure and make advance commitments to insure payments required by a loan for child care facilities upon such terms and conditions as the Agency may prescribe. Mortgage loans insured by the Agency under this Chapter may provide financing for related ancillary facilities to the extent permitted by applicable Agency regulations. Mortgage loans insured by the Agency under this Chapter shall be secured by a first mortgage.

The aggregate principal amount of all mortgages so insured by the Agency under this Chapter and outstanding at any one time shall not exceed 10 times the average annual balance for the preceding calendar year of funds on deposit in the child care mortgage insurance fund, the creation of which is hereby authorized. The aggregate amount of principal obligations of all mortgages so insured shall not be deemed to constitute a debt, liability, or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any such political subdivision, but shall be payable solely from moneys on deposit to the credit of the child care mortgage insurance fund. Any contract of insurance executed by the Agency under this section shall be conclusive evidence of eligibility for such mortgage insurance and the validity of any contract of insurance so executed or of an advance commitment to issue such shall be incontestable in the hands of a mortgagee from the date of execution of such contract or commitment, except for fraud or misrepresentation on the part of such mortgagee and, as to commitments to insure, noncompliance with the terms of the advance commitment or Agency regulations in force at the time of issuance of the advance commitment.

(b) For mortgage payments to be eligible for insurance under the provisions of this Chapter, the underlying mortgage loan shall:

(1) Be one which is made and held by a mortgagee approved by the Agency as responsible and able to service the mortgage properly.

(2) Not exceed ninety percent (90%) of the estimated cost of the proposed child care facility.

(3) Have a maturity satisfactory to the Agency but in no case longer than eighty percent (80%) of the Agency's estimate of the remaining useful life of said child care facility or 40 years from the date of the issuance of insurance, whichever is earlier.

(4) Contain amortization provisions satisfactory to the Agency requiring periodic payments by the mortgagor not in excess of the ability to pay as determined by the Agency.

(5) Be in such form and contain such terms and provisions with respect to maturity, property insurance, repairs, alterations, payment of taxes and assessments, default reserves, delinquency charges, default remedies, anticipation of maturity, additional and secondary liens, equitable and legal redemption rights, prepayment privileges, and other matters as the Agency may prescribe.

(c) All applications for mortgage insurance shall be forwarded, together with an application fee prescribed by the Agency, to the executive director of the Agency. The Agency shall cause an investigation of the proposed project to be made, review the application and the report of the investigation, and approve or deny the application. No application shall be approved unless the Agency finds that it is consistent with the purposes of this Chapter and further finds that the financing plan for the proposed project is sound. The Agency shall notify the applicant and the proposed lender of its decision. Any such approval shall be conditioned upon payment to the Agency, within such reasonable time and after notification of approval as may be specified by the Agency, of the commitment fee prescribed by the Agency.

(d) The Agency shall fix mortgage insurance premiums for the insurance of mortgage payments under the provision of this Chapter. Such premiums shall be computed as a percentage of the principal of the mortgage outstanding at the beginning of each mortgage year but shall not be more than one-half of one percent (1/2 of 1%) per year of such principal amount. The amount of premium need not be uniform for all insured loans. Such premiums shall be payable by mortgagors or mortgagees in such manner as prescribed by the Agency.

(e) In the event of default by the mortgagor, the mortgagee shall notify the Agency both of the default and the mortgagee's proposed course of action. When it appears feasible, the Agency may for a temporary period upon default or threatened default by the mortgagor authorize mortgage payments to be made by the Agency to the mortgagee which payments shall be repaid under such conditions as the Agency may prescribe. The Agency may also agree to revised terms of financing when such appear prudent. The mortgagee shall be entitled to receive the benefits of the insurance provided herein upon:

(1) Any sale of the mortgaged property by court order in foreclosure or a sale with the consent of the Agency by the mortgagor or a subsequent owner of the property or by the mortgagee after foreclosure or acquisition by deed in lieu of foreclosure, provided all claims of the mortgagee against the mortgagor or others arising from the mortgage, foreclosure, or any deficiency judgment shall be assigned to the Agency without recourse except such claims as may have been released with the consent of the Agency; or

(2) The expiration of six months after the mortgagee has taken title to the mortgaged property under judgment of strict foreclosure, foreclosure by sale or other judicial sale, or under a deed in lieu of foreclosure if during such period the mortgagee has made a bona fide attempt to sell the property, and thereafter conveys the property to the Agency with an assignment, without recourse, to the Agency of all claims of the mortgagee against the mortgagor or others arising out of the mortgage foreclosure, or deficiency judgment; or

(3) The acceptance by the Agency of title to the property or an assignment of the mortgage, without recourse to the Agency, in the event the Agency determines it imprudent to proceed under subdivision (1) or (2) of this subsection.

Upon the occurrence of either subdivision (1), (2), or (3) of this subsection, the obligation of the mortgagee to pay premium charges for insurance shall cease, and the Agency shall, within 30 days thereafter, pay to the mortgagee ninety-eight percent (98%) of the sum of (i) the then unpaid principal balance of the insured indebtedness, (ii) the unpaid interest to the date of conveyance or assignment to the Agency, as the case may be, (iii) the amount of all payments made by the mortgagee for which it has not been reimbursed for taxes, insurance, assessments, and mortgage insurance premiums, and (iv) such other necessary fees, costs, or expenses of the mortgagee as may be approved by the Agency.

(f) Upon request of the mortgagee, the Agency may at any time, under such terms and conditions as it may prescribe, consent to the release of the mortgagor from the mortgagor's liability or consent to the release of parts of the property from the lien of the mortgage, or approve a substitute mortgagor or sale of the property or part thereof.

(g) No claim for the benefit of the insurance provided in this Chapter shall be accepted by the Agency except within one year after any sale or acquisition of title of the mortgaged premises described in subdivision (1) or (2) of subsection (e) of this section.

(h) There shall be paid into the child care mortgage insurance fund (i) all premiums received by the Agency for the granting of such mortgage insurance, (ii) any moneys or other assets received by the Agency as a result of default or delinquency on mortgage loans insured by the Agency, including any proceeds from the sale or lease of real property, (iii) any moneys appropriated and made available by the State for the purpose of such fund.

"**§ 122F-8. Terms and conditions of loans to and by lenders.**

(a) The Agency shall from time to time adopt, modify, amend, or repeal rules and regulations governing the making of loans to lenders and the application of the proceeds thereof. These rules and regulations shall be designed to effectuate the general purposes of this Chapter and the following specific objectives: (i) the construction and renovation of decent, safe, and sanitary child care facilities; (ii) the encouragement of private enterprise and investment to sponsor, build, and renovate child care facilities; (iii) the increase in the supply and access to affordable child care for all families, regardless of income level; and (iv) the restriction of the financial return and benefit to the mortgage lenders from such loans to an amount that is necessary to induce their participation and that is not excessive as determined by prevailing market conditions.

(b) Notwithstanding any other provision of this section, the interest rate or rates and other terms of the loans to lenders made from the proceeds of any issue of bonds of the Agency shall provide that the amounts received by the Agency in repayment of the loans and interest thereon shall be at least sufficient to assure the payment of the principal of and the interest on the bonds as they become due.

(c) The Agency shall enter into a written agreement with each lender that shall require as a condition of each loan to such lender that the lender shall originate new mortgage loans, construction loans, and rehabilitation loans within a reasonable period of time as determined by the Agency's rules and regulations and that such new loans shall have such stated maturities as determined by the Agency's rules and regulations.

(d) The loans to lenders shall be general obligations of the respective lenders owing them. The Agency shall require that such loans shall be secured as to payment of both principal and interest by a pledge and lien upon collateral security. The collateral security itself shall be in such amount as the Agency determines will assure the payment of the principal of and the interest on the bonds as they become due. Collateral security shall be deemed to be sufficient if the principal of and the interest on the collateral security, when due, will be sufficient to pay the principal of and the interest on the bonds. The collateral security shall consist of any of the following items:

(i) direct obligations of, or obligations guaranteed by, the State or the United States of America; (ii) bonds, debentures, notes, or other evidences of indebtedness, satisfactory to the Agency, issued by any of the following federal agencies: Bank for Cooperatives, Federal Intermediate Credit Bank, Export-Import Bank of Washington, Federal Land Banks, or the Government National Mortgage Association; (iii) direct obligations of or obligations guaranteed by the State; (iv) mortgages insured or guaranteed by the United States of America or an instrumentality of it as to payment of principal and interest; (v) any other mortgages secured by real estate on which there is located a commercial structure, the collateral value of which shall be determined by the regulations issued from time to time by the Agency; (vi) certificates of deposit of banks or trust companies, including the trustee, organized under the laws of the United States or any state, which have a combined capital and surplus of at least fifteen million dollars ($15,000,000); (vii) Bankers Acceptances; and (viii) commercial paper that has been classified for rating purposes by Dun & Bradstreet, Inc., as Prime-1 or by Standard & Poor's Corp. as A-1.

(e) The Agency may require as a condition of any loan to a lender such representations and warranties that it determines to be necessary to secure such loans and to carry out the purposes of this section.

"**§ 122F-9. Credit of State not pledged.**

Obligations issued under the provisions of this Chapter shall not be deemed to constitute a debt, liability, or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any such political subdivision, but shall be payable solely from the revenues or assets of the Agency. Each obligation issued under this Chapter shall contain on the face thereof a statement to the effect that the Agency shall not be obligated to pay the same nor the interest thereon except from the revenues or assets pledged therefor and that neither the faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal of or the interest on such obligation.

Expenses incurred by the Agency in carrying out the provisions of this Chapter may be made payable from funds provided pursuant to this Chapter and no liability shall be incurred by the Agency hereunder beyond the extent to which moneys shall have been so provided.

"**§ 122F-10. Bonds and notes.**

The Agency is hereby authorized to provide for the issuance, at one time or from time to time, of bonds and notes of the Agency to carry out and effectuate its corporate purposes. The Agency also is hereby authorized to provide for the issuance, at one time or from time to time, of (i) bond anticipation notes in anticipation of the issuance of such bonds and (ii) construction loan notes to finance the making or purchase of mortgage loans, construction loans, and rehabilitation loans, for the construction, rehabilitation, or improvement of child care facilities. The total amount of bonds, bond anticipation notes, and construction loan notes outstanding at any one time shall not exceed twelve billion dollars ($12,000,000,000) excluding therefrom any bond anticipation notes for the payment of which bonds have been issued. The principal of and the interest on such bonds or notes shall be payable solely from the funds herein provided for such payment. Any such notes may be made payable from the proceeds of bonds or renewal notes or, in the event bond or renewal note proceeds are not available, such notes may be paid from any available revenues or assets of the Agency. The bonds or notes of each issue shall be dated and may be made redeemable before maturity at the option of the Agency at such price or prices and under such terms and conditions as may be determined by the Agency. Any such bonds or notes shall bear interest at such rate or rates as may be determined by the Local Government Commission of North Carolina with the approval of the Agency. Notes shall mature at such time or times not exceeding 10 years from their date or dates and bonds shall mature at such time or times not exceeding 43 years from their date or dates, as may be determined by the Agency. The Agency shall determine the form and manner of execution of the bonds or notes, including any interest coupons to be attached thereto, and shall fix the denomination or denominations and the place or places of payment of principal and interest, which may be any bank or trust company within or

without the State. In case any officer whose signature or a facsimile of whose signature shall appear on any bonds or notes or coupons attached thereto shall cease to be such officer before the delivery thereof, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes the same as if that officer had remained in office until such delivery. The Agency may also provide for the authentication of the bonds or notes by a trustee or fiscal agent. The bonds or notes may be issued in coupon or in registered form, or both, as the Agency may determine, and provision may be made for the registration of any coupon bonds or notes as to principal alone and also as to both principal and interest, and for the reconversion into coupon bonds or notes of any bonds or notes registered as to both principal and interest, and for the interchange of registered and coupon bonds or notes. Upon the filing with the Local Government Commission of North Carolina of a resolution of the Agency requesting that its bonds and notes be sold, such bonds or notes may be sold in such manner, either at public or private sale, and for such price as the Commission shall determine to be for the best interest of the Agency and best effectuate the purposes of this Chapter, as long as the sale is approved by the Agency.

The proceeds of any bonds or notes shall be used solely for the purposes for which issued and shall be disbursed in such manner and under such restrictions, if any, as the Agency may provide in the resolution authorizing the issuance of such bonds or notes or in the trust agreement hereinafter mentioned securing the same.

Prior to the preparation of definitive bonds, the Agency may, under like restrictions, issue interim receipts or temporary bonds, with or without coupons, exchangeable for definitive bonds when such bonds shall have been executed and are available for delivery. The Agency may also provide for the replacement of any bonds or notes which shall become mutilated or shall be destroyed or lost.

Bonds or notes may be issued under the provisions of this Chapter without obtaining, except as otherwise expressly provided in this Chapter, the consent of any department, division, commission, board, body, bureau, or agency of the State, and without any other proceedings or the happening of any conditions or things other than those proceedings, conditions, or things which are specifically required by this Chapter and the provisions of the resolution authorizing the issuance of such bonds or notes or the trust agreement securing the same.

"**§ 122F-11. Trust agreement or resolution.**

In the discretion of the Agency, any obligations issued under the provisions of this Chapter may be secured by a trust agreement by and between the Agency and a corporate trustee, which may be any trust company or bank having the powers of a trust company within or without the State. Such trust agreement or the resolution providing for the issuance of such obligations may pledge or assign all or any part of the revenues or assets of the Agency, including, without limitation, mortgage loans, construction loans, rehabilitation loans, mortgage loan commitments, contracts, agreements, and other security or investment obligations, the fees or charges made or received by the Agency, the moneys received in payment of loans and interest thereon, and any other moneys received or to be received by the Agency. Such trust agreement or resolution may contain such provisions for protecting and enforcing the rights and remedies of the holders of any such obligations as may be reasonable and proper and not in violation of law, including covenants setting forth the duties of the Agency in relation to the purposes to which obligation proceeds may be applied, the disposition or pledging of the revenues or assets of the Agency, the terms and conditions for the issuance of additional obligations, and the custody, safeguarding, and application of all moneys. It shall be lawful for any bank or trust company incorporated under the laws of the State which may act as depositary of the proceeds of obligations, revenues, or other money hereunder to furnish such indemnifying bonds or to pledge such securities as may be required by the Agency. Any such trust agreement or resolution may set forth the rights and remedies of the holders of any obligations and of the trustee, and may restrict the individual right of action by any such holders. In addition to the foregoing, any such trust agreement or resolution may contain such other provisions as the Agency may deem reasonable and proper for the

security of the holders of any obligations. All expenses incurred in carrying out the provisions of such trust agreement or resolution may be paid from the revenues or assets pledged or assigned to the payment of the principal of and the interest on obligations or from any other funds available to the Agency.

"**§ 122F-12. Validity of any pledge.**

The pledge of any assets or revenues of the Agency to the payment of the principal of or the interest on any obligations of the Agency shall be valid and binding from the time when the pledge is made and any such assets or revenues shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of any such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract, or otherwise against the Agency, irrespective of whether such parties have notice thereof. Nothing herein shall be construed to prohibit the Agency from selling any assets subject to any such pledge except to the extent that any such sale may be restricted by the trust agreement or resolution providing for the issuance of such obligations.

"**§ 122F-13. Trust funds.**

Notwithstanding any other provisions of law to the contrary, all moneys received pursuant to the authority of this Chapter shall be deemed to be trust funds to be held and applied solely as provided in this Chapter. The resolution authorizing any obligations or the trust agreement securing the same may provide that any of such moneys may be temporarily invested pending the disbursement thereof and shall provide that any officer with whom, or any bank or trust company with which, such moneys shall be deposited shall act as trustee of such moneys and shall hold and apply the same for the purposes hereof, subject to such regulations as this Chapter and such resolution or trust agreement may provide.

Any moneys received pursuant to the authority of this Chapter and any other moneys available to the Agency for investment may be invested:

(1) As provided in G.S. 159-30, except that for purposes of G.S. 159-30(b), the Agency may deposit moneys at interest in banks or trust companies outside as well as in this State, as long as any moneys at deposit outside this State are collateralized to the same extent and manner as if at deposit in this State.

(2) In evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of the United States government or obligations the principal of and the interest on which are guaranteed by the United States government, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state in the capacity of custodian.

(3) In repurchase agreements with respect to (i) direct obligations of the United States government, (ii) obligations the principal of and the interest on which are guaranteed by the United States government, or (iii) obligations described in G.S. 159-30(c)(2), (3), (6), or (7), if all of the following conditions are met:

a. The repurchase agreement is entered into with an institution whose ability to pay its unsecured long-term obligations (including, if the institution is an insurance company, its claims paying ability) is rated in one of the two highest ratings categories by a nationally recognized securities rating agency. If the term of the repurchase agreement is for a period of one year or less, however, the repurchase agreement may be entered into with an institution that does not have such a long-term rating if its ability to pay its unsecured short-term obligations is rated in one of the two highest ratings categories by a nationally recognized securities rating agency. If the institution with which the agreement is to be entered does not meet the ratings requirement of this subparagraph, the repurchase agreement may nevertheless be entered

into with the institution if the obligations of the institution under the repurchase agreement are fully guaranteed by another institution that does meet the ratings requirement of this sub-subdivision.

b. The repurchase agreement provides that it shall be terminated, without penalty, if the institution with which the repurchase agreement is entered or by whom the institution's obligations are guaranteed fails to maintain (i) in the event that the repurchase agreement was entered into in reliance upon the rating of the institution's long-term obligations, a rating of its long-term obligations in one of the three highest ratings categories by at least one nationally recognized securities rating agency, or (ii) in the event that the repurchase agreement was entered into in reliance upon the rating of the institution's short-term obligations, a rating of its short-term obligations in one of the two highest ratings categories by at least one nationally recognized securities rating agency. The repurchase agreement does not have to be terminated, however, if a new guarantor meeting the rating requirement set forth in sub-subdivision a. of this subdivision as the requirement necessary for the Agency to enter the repurchase agreement agrees to fully guarantee the obligations of the institution under the repurchase agreement.

c. The obligations that are subject to the repurchase agreement are delivered (in physical or in book entry form) to the Agency, or any financial institution serving either as trustee for obligations issued by the Agency or as fiscal agent for the Agency or the State Treasurer or are supported by a safekeeping receipt issued by a depository satisfactory to the Agency. The repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated at least daily, of not less than one hundred percent (100%) of the repurchase price. The financial institution serving either as trustee or as fiscal agent for the Agency holding the obligations subject to the repurchase agreement hereunder or the depository issuing the safekeeping receipt shall not be the provider of the repurchase agreement.

d. A valid and perfected first security interest in the obligations which are the subject of the repurchase agreement has been granted to the Agency or its assignee or book entry procedures, conforming, to the extent practicable, with federal regulations and satisfactory to the Agency have been established for the benefit of the Agency or its assignee.

e. The securities are free and clear of any adverse third-party claims.

f. The repurchase agreement is in a form satisfactory to the Agency.

"**§ 122F-14. Remedies.**

Any holder of obligations issued under the provisions of this Chapter or any coupons appertaining thereto, and the trustee under any trust agreement or resolution authorizing the issuance of such obligations, except to the extent the rights herein given may be restricted by such trust agreement or resolution, may, either at law or in equity, by suit, action, mandamus or other proceeding, protect and enforce any and all rights under the laws of the State or granted hereunder or under such trust agreement or resolution, or under any other contract executed by the Agency pursuant to this Chapter, and may enforce and compel the performance of all duties required by this Chapter or by such trust agreement or resolution to be performed by the Agency or by any officer thereof.

"**§ 122F-15. Negotiable instruments.**

Notwithstanding any of the foregoing provisions of this Chapter or any recitals in any obligations issued under the provisions of this Chapter, all such obligations and interest coupons appertaining thereto shall be and are hereby made negotiable instruments under the laws of this State, subject only to any applicable provisions for registration.

"**§ 122F-16. Obligations eligible for investment.**

Obligations issued under the provisions of this Chapter are hereby made securities in which all public officers and public bodies of the State and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees, and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. Such obligations are hereby made securities which may properly and legally be deposited with and received by any State or municipal officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds, notes, or obligations of the State is now or may hereafter be authorized by law.

"**§ 122F-17. Refunding obligations.**

The Agency is hereby authorized to provide for the issuance of refunding obligations for the purpose of refunding any obligations then outstanding which shall have been issued under the provisions of this Chapter, including the payment of any redemption premium thereon and any interest accrued or to accrue to the date of redemption of such obligations and, if deemed advisable by the Agency, for any corporate purpose of the Agency. The issuance of such obligations, the maturities and other details thereof, the rights of the holders thereof, and the rights, duties, and obligations of the Agency in respect of the same shall be governed by the provisions of this Chapter which relate to the issuance of obligations, insofar as such provisions may be appropriate therefor.

Refunding obligations may be sold or exchanged for outstanding obligations issued under this Chapter and, if sold, the proceeds thereof may be applied, in addition to any other authorized purposes, to the purchase, redemption, or payment of such outstanding obligations. Pending the application of the proceeds of any such refunding obligations, with any other available funds, to the payment of the principal, accrued interest and any redemption premium on the obligations being refunded, and, if so provided or permitted in the resolution authorizing the issuance of such refunding obligations or in the trust agreement securing the same, to the payment of any interest on such refunding obligations and any expenses in connection with such refunding, such proceeds may be invested in direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America which shall mature or which shall be subject to redemption by the holders thereof, at the option of such holders, not later than the respective dates when the proceeds, together with the interest accruing thereon, will be required for the purposes intended.

"**§ 122F-18. Oversight by committees of General Assembly; annual report; audit; construction of Chapter.**

(a) Oversight. – The Finance Committee of the House of Representatives, the Finance Committee of the Senate, and the Joint Legislative Oversight Committee on Health and Human Services shall exercise continuing oversight of the Agency in order to assure that the Agency is effectively fulfilling its statutory purpose.

(b) Comprehensive Report. – The Agency shall, on or before February 15 of each year, submit an annual comprehensive report of its activities for the preceding year to the Governor, the Office of State Budget and Management, the State Auditor, the Local Government Commission, the Joint Legislative Oversight Committee on Health and Human Services, and the Fiscal Research Division. The comprehensive report required under this subsection shall include at least all of the following:

(1) The goals and objectives of the program administered by the Agency.

(2) The number and types of activities funded by the Agency.

(c) Audit. – The Agency shall cause an audit of its books and accounts to be made at least once in each year by an independent certified public accountant and the cost thereof may be paid from any available moneys of the Agency.

(d) Construction. – Nothing in this Chapter shall be construed as requiring the Agency to receive legislative approval for the exercise of any of the powers granted by this Chapter.

"**§ 122F-19. Officers not liable.**

No member or other officer of the Agency shall be subject to any personal liability or accountability by reason of his execution of any obligations or the issuance thereof.

"**§ 122F-20. Authorization to accept appropriated moneys.**

The Agency is authorized to accept such moneys as may be appropriated from time to time by the General Assembly for effectuating its corporate purposes including, without limitation, the payment of the initial expenses of administration and operation and the establishment of a reserve or contingency fund to be available for the payment of the principal of and the interest on any bonds or notes of the Agency.

"**§ 122F-21. Tax exemption.**

The exercise of the powers granted by this Chapter will be in all respects for the benefit of the people of the State, for their well-being and prosperity and for the improvement of their social and economic conditions, and the Agency shall not be required to pay any tax or assessment on any property owned by the Agency under the provisions of this Chapter or upon the income therefrom.

Any obligations issued by the Agency under the provisions of this Chapter shall at all times be free from taxation by the State or any local unit or political subdivision or other instrumentality of the State, excepting inheritance or gift taxes, income taxes on the gain from the transfer of the obligations, and franchise taxes. The interest on the obligations is not subject to taxation as income.

"**§ 122F-22. Conflict of interest.**

If any member, officer, or employee of the Agency shall be interested either directly or indirectly, or shall be an officer or employee of or have an ownership interest in any firm or corporation interested directly or indirectly in any contract with the Agency, including any loan to any sponsor, builder, or developer, such interest shall be disclosed to the Agency and shall be set forth in the minutes of the Agency, and the member, officer, or employee having such interest therein shall not participate on behalf of the Agency in the authorization of any such contract.

"**§ 122F-23. Additional method.**

The foregoing sections of this Chapter shall be deemed to provide an additional and alternative method for the doing of the things authorized thereby and shall be regarded as supplemental and additional to powers conferred by other laws, and shall not be regarded as in derogation of any powers now existing; provided, however, that the issuance of bonds or notes under the provisions of this Chapter need not comply with the requirements of any other law applicable to the issuance of bonds or notes.

"**§ 122F-24. Chapter liberally construed.**

This Chapter, being necessary for the prosperity of the State and its inhabitants, shall be liberally construed to effect the purposes thereof.

"**§ 122F-25. Inconsistent laws inapplicable.**

Insofar as the provisions of this Chapter are inconsistent with the provisions of any general or special laws, or parts thereof, the provisions of this Chapter shall be controlling."

SECTION 9.1.(b) Notwithstanding the requirements of G.S. 122F-4, as enacted by subsection (a) of this section, the initial appointments to the North Carolina Child Care Finance Agency shall be appointed to a term beginning October 1, 2026, as follows:

(1) Six members appointed by the Governor as follows:

a. One member with experience in workforce needs to a two-year term expiring June 30, 2028.

b. One member with experience as a licensed child care provider to a four-year term expiring June 30, 2030.
c. One member with experience as a specialist in child care licensure to a two-year term expiring June 30, 2028.
d. One member with experience in construction of child care facilities to a four-year term expiring June 30, 2030.
e. One member with experience in commercial small business lending to a two-year term expiring June 30, 2028.
f. One member with experience in real estate development to a four-year term expiring June 30, 2030.

(2) Three members appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate as follows:
a. One member with experience with a savings and loan institution to a four-year term expiring June 30, 2030.
b. One member with experience as a licensed child care provider to a two-year term expiring June 30, 2028.
c. One member with experience in construction lending to a four-year term expiring June 30, 2030.

(3) Three members appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives as follows:
a. One member with experience with a mortgage-servicing institution to a two-year term expiring June 30, 2028.
b. One member with experience as a licensed child care provider to a four-year term expiring June 30, 2030.
c. One member with experience in a business that makes on-site child care available to employees to a two-year term expiring June 30, 2028.

SECTION 9.2. The State Treasurer shall invest three and one-half percent (3.5%) of the corpus of the North Carolina Innovation Fund with the North Carolina Child Care Finance Agency, as enacted under this Part.

SECTION 9.3. There is appropriated from the General Fund to the Department of Administration the sum of twenty million dollars ($20,000,000) in nonrecurring funds for the 2026-2027 fiscal year for the North Carolina Child Care Finance Agency, as enacted under this Part. The North Carolina Child Care Finance Agency shall use the funds as provided in G.S. 122F-20, as enacted in Section 9.1 of this Part.

PART X. CARING FOR OUR CAREGIVERS ACT

INCOME TAX EXEMPTION

SECTION 10.1.(a) G.S. 105-153.7 reads as rewritten:

"**§ 105-153.7. Individual income tax imposed.**

(a) Tax. – A tax is imposed for each taxable year on the North Carolina taxable income of every individual. The tax shall be levied, collected, and paid annually. Except as otherwise provided in subsection (a1) of this section, the tax ~~is a percentage of the taxpayer's North Carolina taxable income computed as follows:~~shall be computed at the following percentages of the taxpayer's income for taxable year 2026 and computed at the following percentage reduced by twenty-six hundredths percent (0.26%) for taxable years after 2026:

~~Taxable Years Beginning~~	~~Tax~~
~~In 2022~~	~~4.99%~~
~~In 2023~~	~~4.75%~~
~~In 2024~~	~~4.5%~~
~~In 2025~~	~~4.25%~~

~~After 2025~~ ~~3.99%.~~

(1) For married individuals who file a joint return under G.S. 105-153.8 and for surviving spouses, as defined in section 2(a) of the Code:

Over	Up To	Rate
-0-	1,000,000	4.25%
$1,000,000	NA	5.05%

(2) For heads of households, as defined in section 2(b) of the Code:

Over	Up To	Rate
-0-	$800,000	4.25%
$800,000	NA	5.05%

(3) For unmarried individuals other than surviving spouses and heads of households:

Over	Up To	Rate
-0-	600,000	4.25%
$600,000	NA	5.05%

(4) For married individuals who do not file a joint return under G.S. 105-153.8:

Over	Up To	Rate
-0-	500,000	4.25%
$500,000	NA	5.05%

(a1) Rate Reduction Trigger. – Notwithstanding the tax rates set out in subsection (a) of this section, if total General Fund revenue in a fiscal year set out below exceeds the trigger amount indicated for that fiscal year, then the applicable tax rate for the indicated and subsequent tax years shall be equal to the greater of (i) the prior taxable year's rate decreased by one-half percentage point (0.50%) or (ii) two and forty-nine hundredths percent (2.49%). For purposes of this subsection, total General Fund revenue is the amount stated in the final accounting of total General Fund Reverting Net Tax and Non-Tax Revenues for the fiscal year, as reported by the Office of State Controller in August following the end of the fiscal year.

Fiscal Year	Trigger Amount	Taxable Year Beginning
FY 2025-2026	$33,042,000,000	In 2027
FY 2026-2027	$34,100,000,000	In 2028
FY 2027-2028	$34,760,000,000	In 2029
FY 2028-2029	$35,750,000,000	In 2030
FY 2029-2030	$36,510,000,000	In 2031
FY 2030-2031	$38,000,000,000	In 2032
FY 2031-2032	$38,500,000,000	In 2033
FY 2032-2033	$39,000,000,000	In 2034

(b) Withholding Tables. – The Secretary may provide tables that compute the amount of tax due for a taxable year under this Part. The amounts of the tax determined under the tables shall be computed on the basis of the rates prescribed by subsection (a) of this section. The tables do not apply to an individual who files a return under section 443(a)(1) of the Code for a period of less than 12 months due to a change in the individual's annual accounting period or to an estate or trust."

SECTION 10.1.(b) G.S. 105-153.5(b) is amended by adding a new subdivision to read:

"(6a) Income earned for work performed as one of the following:

a. Firefighter.

b. Emergency medical services personnel, including the following:

1. Emergency medical responder.

2. Paramedic.

3. Rescue squad member.

c. Emergency management worker.

d. 911 call center worker.
e. Sworn law enforcement officer with the power of arrest.
f. Child care worker.
g. Public school unit employee.
h. Probation or parole officer.
i. Corrections officer."

SECTION 10.1.(c) This section is effective for taxable years beginning on or after January 1, 2026.

BENEFITS FOR CAREGIVER WORKERS

SECTION 10.2.(a) For the purposes of this section, a qualifying caregiver worker is any individual who meets both of the following requirements:

(1) Has an annual household income that does not exceed one hundred twenty-five thousand dollars ($125,000).
(2) Is employed in the State at least 30 hours a week as one of the following:
a. Firefighter.
b. Emergency medical services personnel, including the following:
1. Emergency medical responder.
2. Paramedic.
3. Rescue squad member.
c. Emergency management worker.
d. 911 call center worker.
e. Sworn law enforcement officer with the power of arrest.
f. Child care worker.
g. Public school unit employee.
h. Probation or parole officer.
i. Corrections officer.

SECTION 10.2.(b) There is appropriated from the General Fund to the Department of Health and Human Services, Division of Child Development and Early Education, the sum of one hundred sixty-five million dollars ($165,000,000) in recurring funds beginning in the 2026-2027 fiscal year to provide subsidized child care services to a family that includes an individual employed as a qualifying caregiver worker. The Division of Child Development and Early Education shall give priority to child care workers in awarding these subsidies.

PART XI. CHILD CARE REFORMS AND FUNDING

CHILD CARE PROVIDER ACCESS TO THE FEDERAL CHILD AND ADULT CARE FOOD PROGRAM

SECTION 11.1.(a) Article 3 of Chapter 143B of the General Statutes is amended by adding a new Part to read:

"Part 10D. Child and Adult Care Food Program (CACFP) for Child Care Providers.

"**§ 143B-168.40. CACFP access for family, friend, and neighbor child care providers.**

(a) Definitions. – The following definitions apply in this section:
(1) CACFP. – The Child and Adult Care Food Program, as authorized under Section 17 of the National School Lunch Act, 42 U.S.C. § 1766, and administered in this State by the Division of Child Development and Early Education (DCDEE) within the Department of Health and Human Services.
(2) Family, friend, and neighbor (FFN) child care provider. – An individual who is legally operating under applicable State law and provides child care, including child care in one of the following settings:

a. An operator-occupied private dwelling in which, at any one time, two or fewer children receive child care.
b. The home of any child receiving child care if all of the children in child care are related to one another and no more than two additional children are in child care.

The term includes individuals providing (i) child care that falls below the threshold requiring licensure under G.S. 110-86(3)b., (ii) arrangements excluded from the definition of child care under G.S. 110-86(2), and (iii) child care holding a license-exempt status recognized by the Department.

(b) Requirements. – The Department shall take all feasible administrative action to extend access to CACFP to legally operating FFN child care providers, which action may include, but is not limited to, the following:

(1) Identifying and engaging or designating one or more sponsoring organizations capable of administering CACFP reimbursements to FFN providers.
(2) Developing or modifying application procedures, training requirements, and record-keeping protocols appropriate to the scale and nature of FFN care settings.
(3) Applying for any available federal waivers, pilot programs, or flexibilities that support FFN provider participation in CACFP.
(4) Establishing simplified or tiered compliance mechanisms to reduce administrative burden on FFN providers while maintaining program integrity.
(5) Coordinating with the USDA Food and Nutrition Service to ensure State plan amendments, as necessary, reflect expanded eligibility for FFN providers.

(c) Reporting. – No later than July 1 of each year, the Department shall submit a report to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division of the General Assembly detailing each of the following:

(1) The number of FFN providers enrolled in or newly accessing CACFP.
(2) The number of children served through FFN providers participating in CACFP.
(3) Any barriers to participation identified and steps taken to address them.
(4) Recommendations for additional legislative or administrative action.

(d) Nothing in this section shall be construed to require any FFN provider to participate in CACFP, to alter the licensure requirements of Chapter 110 of the General Statutes, or to conflict with applicable federal law or USDA regulations governing CACFP."

SECTION 11.1.(b) Implementation Plan. – No later than 180 days after this section becomes effective, the Department of Health and Human Services, Division of Child Development and Early Education, shall develop and publish an implementation plan detailing the administrative approach selected pursuant to G.S. 143B-168.40(b), as enacted in subsection (a) of this section, including time lines, required rule changes, any necessary federal approvals, and resource requirements.

SECTION 11.1.(c) Report. – The Division of Child Development and Early Education shall submit its initial report required by G.S. 143B-168.40(c), as enacted by subsection (a) of this section, no later than 12 months from the date this Part becomes effective.

SECTION 11.1.(d) Appropriations. – There is appropriated from the General Fund to the Department of Health and Human Services, Division of Child Development and Early Education, the following amounts for the 2025-2026 fiscal year, for the following purposes:

(1) The sum of one hundred fifty thousand dollars ($150,000) in nonrecurring funds for the 2025-2026 fiscal year to do each of the following:
a. Develop the implementation plan required by subsection (b) of this section, including identification of feasible administrative approaches to extending Child and Adult Care Food Program (CACFP) access to

legally operating family, friend, and neighbor (FFN) child care providers, assessment of required federal approvals or State plan amendments, and determination of resource requirements necessary to carry out the selected approach.

b. Conduct outreach to existing and potential CACFP sponsoring organizations to assess capacity and willingness to administer CACFP reimbursements on behalf of FFN providers, and to identify gaps in sponsoring organization coverage across the State, with particular attention to rural areas and communities with high concentrations of FFN care arrangements.

c. Design and pilot FFN-appropriate application procedures, training curricula, and record-keeping protocols that reduce administrative burden on FFN providers while maintaining compliance with applicable federal program integrity requirements.

d. Apply for any available federal waivers, pilot programs, or flexibilities offered by the United States Department of Agriculture, Food and Nutrition Service, that would support or accelerate FFN provider participation in CACFP, including preparation of any required State plan amendments.

(2) The sum of five hundred thousand dollars ($500,000) in recurring funds beginning in the 2025-2026 fiscal year to support the ongoing administrative costs of coordinating FFN provider participation in CACFP in accordance with this act, including the hiring of full-time staff to assist with processing and outreach of applications, staff time dedicated to sponsoring organization oversight, FFN provider support, data collection, and preparation of the annual report required under G.S. 143B-168.40(c), as enacted by this section. Funding shall continue until such time as federal CACFP administrative reimbursements are sufficient to cover those costs, at which point the Division of Child Development and Early Education shall notify the Office of State Budget and Management and the Fiscal Research Division and the recurring appropriation under this subdivision shall be reduced accordingly.

SECTION 11.1.(e) Funds appropriated under subsection (d) of this section shall not revert to the General Fund at the end of the fiscal year but shall remain available for the purposes of that subsection until expended or until June 30 of the second fiscal year following appropriation, whichever occurs first.

SECTION 11.1.(f) This section is effective when it becomes law.

PROTECT THE RIGHTS OF HOMEOWNERS AND TENANTS TO OPERATE LICENSED FAMILY CHILD CARE HOMES

SECTION 11.2.(a) Chapter 110 of the General Statutes is amended by adding a new Article to read:

"Article 7A.

"Protection of Family Child Care Home Operations.

"**§ 110-107.25. Definitions.**

The following definitions apply in this Article:

(1) Family child care home. – The same meaning as set forth in G.S. 110-86(3)b., limited to facilities licensed under G.S. 110-88.

(2) HOA governing document. – Any declaration, covenant, condition, restriction, bylaw, rule, or regulation of a homeowners association, condominium association, planned community, or similar entity that governs the use of residential property.

(3) Landlord. – The same meaning as set forth in G.S. 42-40(3).
(4) Licensed operator. – Any person holding a valid license to operate a family child care home issued by the Secretary pursuant to G.S. 110-88, whether the person is a homeowner or a tenant residing at the licensed premises.

"**§ 110-107.26. HOA restrictions prohibited.**

(a) Any provision of an HOA governing document that prohibits, restricts, conditions, or penalizes the operation of a licensed family child care home by a member or resident who holds a valid license issued pursuant to G.S. 110-88 is void and unenforceable as contrary to the public policy of this State.

(b) A homeowners association or condominium association shall not do any of the following:

(1) Deny, suspend, revoke, or condition membership rights or community privileges solely on account of a member's operation of a licensed family child care home.
(2) Impose fees, assessments, fines, or penalties on a member solely on account of the member's operation of a licensed family child care home.
(3) Require approval or consent of the association as a condition of operating a licensed family child care home.

(c) Nothing in this section prohibits an association from enforcing rules of general applicability relating to parking, noise, exterior modifications, or use of common areas to the extent such rules do not impose requirements more burdensome on licensed family child care homes than on other residential uses.

"**§ 110-107.27. Landlord restrictions prohibited.**

(a) A landlord shall not include in any lease, rental agreement, or tenancy arrangement a provision that prohibits, restricts, or penalizes a tenant from operating a licensed family child care home at the leased premises.

(b) Any lease provision in violation of subsection (a) of this section is void and unenforceable as against public policy.

(c) A landlord shall not terminate a tenancy, refuse to renew a lease, or take any adverse action against a tenant solely because the tenant operates or intends to operate a licensed family child care home.

(d) A tenant operating a licensed family child care home remains responsible for compliance with all other applicable lease terms, including obligations regarding maintenance of the premises, liability, and insurance, and shall carry liability insurance in amounts sufficient to cover the operation of the child care home.

(e) A landlord may require a tenant to do the following:

(1) Provide written notice of the intent to operate a licensed family child care home.
(2) Provide a copy of any license issued pursuant to G.S. 110-88.
(3) Require the tenant to maintain adequate liability insurance coverage.

"**§ 110-107.28. Local government zoning; limitations.**

(a) For purposes of local land use and zoning regulation, a licensed family child care home shall be deemed a residential use of property and shall be permitted as a matter of right in any zoning district in which single-family or multifamily residential uses are permitted, including residential zones, mixed-use zones, or any other district that allows residential dwellings.

(b) A local government shall not adopt or enforce any zoning ordinance, development regulation, or land use restriction that does any of the following:

(1) Subjects a licensed family child care home to requirements, conditions, or standards more burdensome than those applicable to other single-family or multifamily residential dwellings in the same zoning district.

(2) Imposes special use permit requirements, conditional use permit requirements, or other discretionary approval processes applicable to licensed family child care homes but not to other residential uses.

(3) Limits the number of licensed family child care homes permitted within a zoning district based solely on the child care use.

(4) Requires a licensed family child care home to comply with commercial or institutional zoning standards, including, but not limited to, commercial parking minimums, commercial signage requirements, or nonresidential setback requirements.

(c) A local government may impose on a licensed family child care home only those development standards that would apply to the residential use of the property generally, including applicable building codes, fire codes, and health and sanitation requirements.

(d) Nothing in this section shall be construed to preempt or limit the application of standards adopted by the Child Care Commission or the Department of Health and Human Services governing the health, safety, and physical environment of licensed child care facilities.

"**§ 110-107.29. Remedies.**

(a) Any licensed operator whose rights under this Article are violated may bring a civil action in superior court for any of the following:

(1) Declaratory and injunctive relief.

(2) Actual damages.

(3) Reasonable attorneys' fees and costs if the licensed operator is the prevailing party.

(b) The Attorney General may bring an action on behalf of the State to enforce the provisions of this Article.

"**§ 110-107.30. Application.**

This Article applies to all HOA governing documents, lease agreements, and local zoning ordinances adopted before, on, or after the effective date of this act. Any provision of a governing document, lease, or ordinance that conflicts with this Article is void and unenforceable to the extent of the conflict."

SECTION 11.2.(b) Article 3 of Chapter 47F of the General Statutes is amended by adding a new section to read:

"**§ 47F-3-123. Operation of a licensed family child care home.**

A homeowners association shall not prohibit, restrict, or penalize the operation of a licensed family child care home, as defined in G.S. 110-86(3)b., by a lot owner or tenant who holds a valid license issued pursuant to G.S. 110-88. Any provision of a declaration, covenant, bylaw, or rule of the association to the contrary is void and unenforceable. This section shall not be construed to prevent the association from enforcing rules of general applicability as provided in G.S. 110-107.26(c)."

SECTION 11.2.(c) Nothing in this section is intended to abrogate reasonable health, safety, building code, or fire code requirements applicable to child care facilities.

SECTION 11.2.(d) There is appropriated from the General Fund to the Department of Health and Human Services, Division of Child Development and Early Education (Division), the sum of seventy-five thousand dollars ($75,000) in nonrecurring funds for the 2025-2026 fiscal year to be used as follows:

(1) Develop and disseminate plain language guidance for licensed family child care home operators regarding their rights under Article 7A of Chapter 110 of the General Statutes, as enacted by subsection (a) of this section.

(2) Create model response templates and informational materials for use by licensed operators in disputes with homeowners associations, landlords, and local governments.

(3) Update the Department of Health and Human Services' public website, licensing portal, and printed materials to inform current and prospective licensees of the protections established by this section.

SECTION 11.2.(e) There is appropriated from the General Fund to the Department of Justice, Office of the Attorney General, the sum of one hundred thousand dollars ($100,000) in nonrecurring funds for the 2025-2026 fiscal year to do each of the following:

(1) Train attorneys and staff within the Consumer Protection Division or other appropriate division on the enforcement provisions of Article 7A of Chapter 110 of the General Statutes, as enacted by subsection (a) of this section.

(2) Establish a complaint intake process for licensed family child care home operators alleging violations of G.S. 110-107.26, 110-107.27, or 110-107.28, as enacted by subsection (a) of this section.

(3) Prepare and publish an annual summary of complaints received and enforcement actions taken under this act, to be submitted to the Joint Legislative Oversight Committee on Health and Human Services no later than October 1 of each year.

SECTION 11.2.(f) This section is effective when it becomes law and applies to all acts, ordinances, and agreements entered into on or after that date. For HOA governing documents and lease agreements existing before the effective date of this section, provisions contrary to this section are void and unenforceable as of the effective date.

REMOVE CLASS I FELONY CRIMINAL PENALTY FOR CHILD CARE FACILITY OPERATIONS AND REPLACE WITH ENHANCED CIVIL PENALTY

SECTION 11.3.(a) G.S. 110-103(b) is repealed.

SECTION 11.3.(b) G.S. 110-103.1 is amended by adding a new subsection to read:

"(b1) Notwithstanding subsections (a) and (b) of this section, any person who operates a child care facility who (i) willfully violates G.S. 110-99(a) or (ii) willfully violates this Article while providing child care for three or more children for more than four hours per day on two consecutive days, may be subject to an enhanced civil penalty not to exceed five thousand dollars ($5,000) per violation per day. In determining the amount of the penalty, each of the following shall be considered:

(1) The nature, circumstances, and severity of the violation.

(2) The degree of willfulness.

(3) The history of prior violations.

(4) The potential threat to child health, safety, or welfare.

(5) Whether the operator took prompt corrective action."

SECTION 11.3.(c) There is appropriated from the General Fund to the Department of Health and Human Services, Division of Child Development and Early Education, the sum of fifty thousand dollars ($50,000) in nonrecurring funds for the 2025-2026 fiscal year to implement the following:

(1) Update enforcement protocols, internal policy guidance, and staff training materials to reflect the repeal of the Class I felony provision under G.S. 110-103(b) and the establishment of the enhanced civil penalty framework under G.S. 110-103.1(b1), as enacted by subsections (a) and (b) of this section.

(2) Develop and disseminate guidance to child care facility operators and the public regarding the revised penalty structure applicable to violations of this Article, including the circumstances under which enhanced civil penalties may be assessed.

(3) Coordinate with the Department of Justice and the Administrative Office of the Courts to ensure consistent implementation of the revised penalty framework across enforcement and prosecutorial functions.

SECTION 11.3.(d) There is appropriated from the General Fund to the Administrative Office of the Courts the sum of twenty-five thousand dollars ($25,000) in nonrecurring funds for the 2025-2026 fiscal year to implement the following:

(1) Update charging instruments, case management systems, and related forms to reflect the repeal of the Class I felony classification under former G.S. 110-103(b), as enacted by subsection (a) of this section.

(2) Provide notice and guidance to district attorneys, clerks of superior court, and other relevant court personnel regarding the statutory changes enacted by this section and their application to pending and future cases.

SECTION 11.3.(e) This section is effective when it becomes law and applies to violations occurring on or after that date. This section does not affect the prosecution or punishment of a person for an offense committed before the effective date of this section.

AMEND CHILD CARE LAWS TO INCLUDE DEFINITION FOR LICENSE-EXEMPT FAMILY, FRIEND, AND NEIGHBOR PROVIDERS

SECTION 11.4.(a) G.S. 110-86 is amended by adding a new subdivision to read:

"(6a) License-exempt family, friend, and neighbor (FFN) child care provider. – An individual who satisfies each of the following:

a. Provides child care to one or more children who are not the individual's own biological, adopted, or stepchildren, or children for whom the individual is a legal guardian.

b. Operates in a setting, including the caregiver's home or the home of the child, that is not required to be licensed as a child care facility under this Article by virtue of the number of children served, the nature of the arrangement, or an applicable exemption under G.S. 110-86(2).

c. Has a preexisting familial, social, or community relationship with the child or the child's family, including, but not limited to, a grandparent, aunt, uncle, sibling over the age of 18, family friend, or neighbor.

d. Is in compliance with all applicable requirements for legally operating a child care arrangement under State law, including, but not limited to, any notification, disclosure, or registration requirements adopted by the Department pursuant to this Article.

The term does not include individuals who are required to obtain a license under this Article. Nothing in this subdivision shall be construed to require license-exempt FFN providers to obtain a license, to register with the State, or to comply with any requirement not otherwise applicable to unlicensed child care arrangements under this Article, unless otherwise required by law."

SECTION 11.4.(b) There is appropriated from the General Fund to the Department of Health and Human Services, Division of Child Development and Early Education (Division), the sum of thirty thousand dollars ($30,000) in nonrecurring funds for the 2025-2026 fiscal year to implement the following:

(1) Update public-facing materials, including the Division's website, printed guides, and licensing portal, to incorporate the definition of "license-exempt family, friend, and neighbor (FFN) child care provider" established under G.S. 110-86(6a), as enacted by subsection (a) of this section, and to clearly communicate to the public the legal status of FFN providers and the distinction between license-exempt FFN arrangements and licensed child care facilities.

(2) Revise internal legal guidance documents, policy manuals, and staff training materials within the Division to reflect the new statutory definition and its application to eligibility determinations, program access, and enforcement decisions.

(3) Update the Division's data collection and reporting systems to enable tracking of license-exempt FFN providers as a distinct provider category, including the number of such providers accessing State or federally administered programs, the number of children served, and any relevant demographic or geographic data, to the extent such information is voluntarily reported or otherwise available to the Division.

SECTION 11.4.(c) Existing exemptions from child care facility licensing requirements under G.S. 110-86(2), including care provided by relatives and cooperative parent arrangements, are retained without modification. G.S. 110-86(6a), as enacted by subsection (a) of this section, shall be construed consistently with those exemptions.

SECTION 11.4.(d) This section is effective when it becomes law.

PART XII. EFFECTIVE DATE

SECTION 12.1. Except as otherwise provided herein, this act becomes effective July 1, 2026.