



Early Childhood Budget Trends in North Carolina

April 2015

It's budget time for the state – a good opportunity to review North Carolina's history of early childhood investments.

Investing in strategies that focus on children from birth to age eight is the most effective and cost-efficient means to improve third grade outcomes and long-term success for children and the state. For optimal development and a strong foundation, children need good health, strong families and high quality early learning and school experiences.ⁱ With quality early child development experiences, children are school ready, graduate from high school and grow into productive citizens and valuable employees.ⁱⁱ

In North Carolina, the Child Care Subsidy Program, Smart Start and NC Pre-K (formerly More at Four) comprise the majority of North Carolina's state investments in early care and learning prior to kindergarten. Together, they form the infrastructure to deliver evidence-based programs in all 100 North Carolina counties, ensure that children living in low-income working families have access to high quality child care programs and provide at-risk four-year-olds with the opportunity to start school on an even playing field with their higher income peers.

These initiatives are funded through a combination of state general funds, state lottery funds and federal funds. Over the past several years – under both Democrats and Republicans – the state's approach to funding these initiatives has undergone significant change. Three trends have emerged:

- After several years of decreasing total (state and federal) dollars, the rate of decline for the Child Care Subsidy Program and Smart Start has slowed and funding for NC-PreK has increased over the past three years.ⁱⁱⁱ
- State funding has not returned to its pre-recession levels.^{iv}
- As state investment has decreased, North Carolina has increased its reliance on federal funding.^v

Child Care Subsidy

The Child Care Subsidy Program is a two-generation approach that helps children from low-income working families attend high quality early education programs that build a strong foundation for all future learning and supports their parents' ability to work and become economically self-sufficient. In addition, businesses rely on child care subsidies for their employees to have dependable child care, reducing employee absences and increasing employee productivity.^{vi}

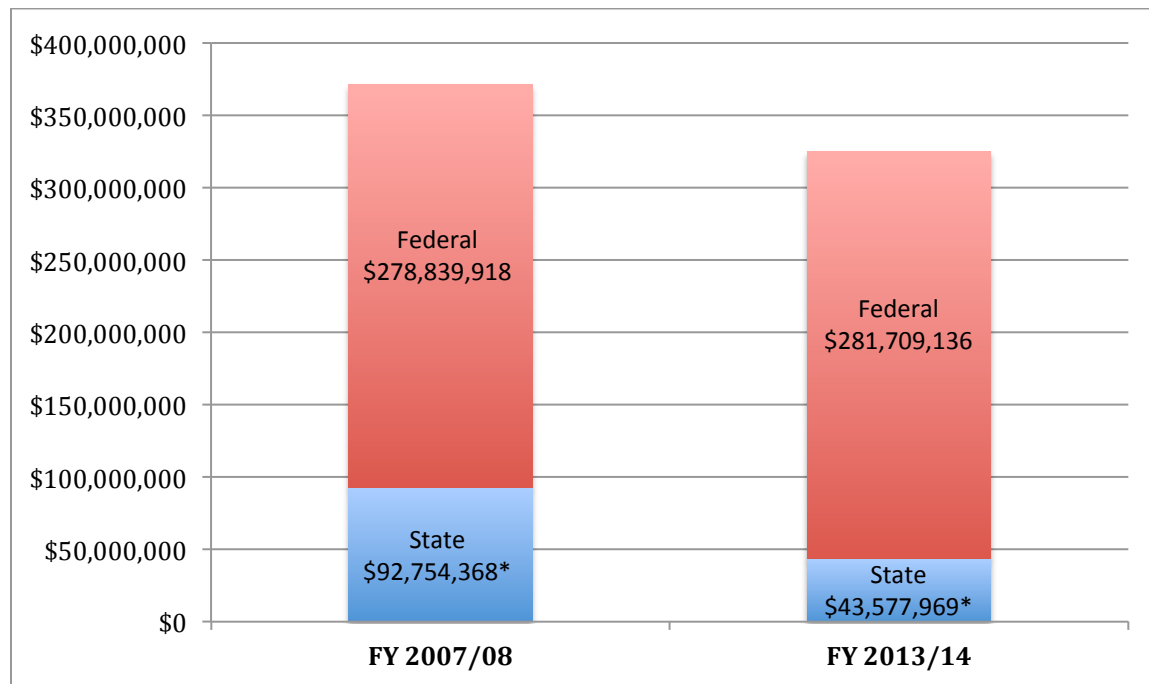
Child care subsidy is funded through a combination of state and federal funding with the majority coming from federal funds. Federal funding comes from primarily two sources, the Child Care and Development Block Grant (CCDBG) and Temporary Assistance for Needy Families (TANF). In order to draw down federal dollars, the state must provide matching funds.

Since 2007, state spending on child care subsidy has been on a downward trend. As the recession hit, North Carolina turned to federal funding made available to help states manage their struggling economies.^{vii} By Fiscal Year 2008/09, the state was investing less than half of the state dollars it had in the previous year.^{viii} Contingency funds from the Temporary Assistance for Needy Families (TANF) made up most of the lost dollars.^{ix} The fund was created by Congress for states to use during periods of economic distress.

The state continued to receive an influx of federal dollars through 2011 for child care subsidy through the American Recovery and Reinvestment Act (ARRA) of 2009.^x As a result, while state funding went down, the impact was partially mitigated by an increase in federal funds.

As the economy continues to recover, state funding for child care subsidy remains below what it was 15 years ago. At the same time, the number of children ages birth through eight living in low-income families (200 percent of the federal poverty level) has increased. In 2005, 498,000 (48%) of children birth through age eight lived in low-income families. By 2013, the number had increased to 585,000 (53%).^{xi}

**Spending on the Child Care Subsidy Program in North Carolina^{xii}
Pre Recession vs Post Recession**



**Smart Start funding for child care subsidy is not included. Smart Start is required to spend a portion of its funding on child care spending. That amount is included in the Smart Start appropriation.*

Smart Start

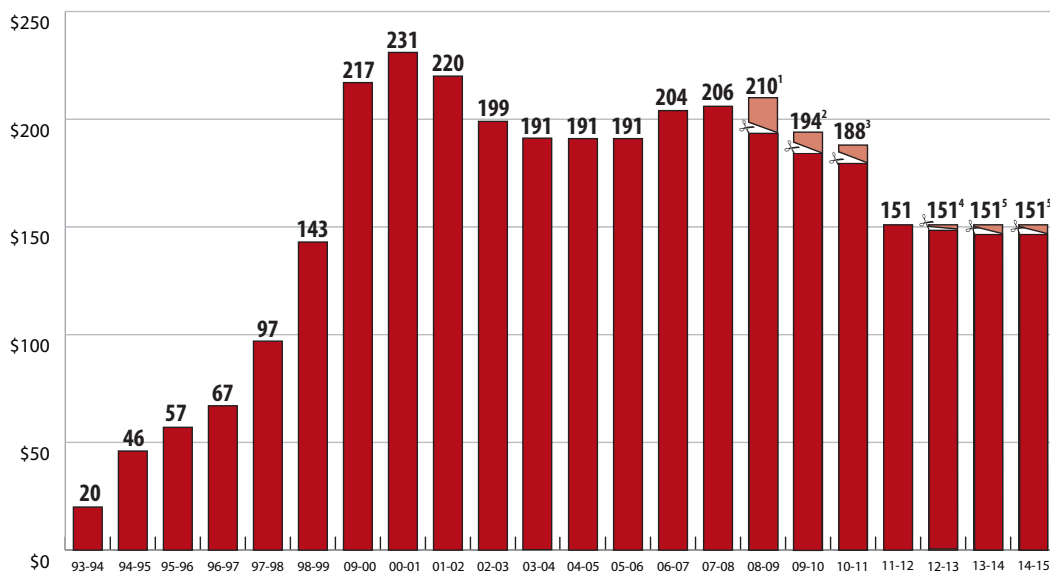
Smart Start is a network of 76 nonprofit local partnerships that serves as the state’s early learning infrastructure to improve the quality of child care programs and implement evidence-based programs to increase the health, well-being and development of children birth through age five in every North Carolina County. The program is mostly state funded, however local Smart Start partnerships are required by law to match 15 percent of those state funds with other resources.

Research by Duke University found that access to Smart Start and NC Pre-K significantly reduced the likelihood that children will be placed in special education in the third grade, and increased third grade reading and math scores.^{xiii}

The North Carolina Partnership for Children, Inc. (NCP) oversees the Smart Start network. It provides statewide governance, ensures programmatic and fiscal accountability, and provides guidance on evidence-based early childhood programs. NCP allocates the funding appropriated by the General Assembly to the local partnerships.

Smart Start public funding peaked in Fiscal Year 2000/01 at \$231 million and has leveled out at \$151 million since 2011. However, while the General Assembly provides a direct appropriation in the state budget for Smart Start, the North Carolina Department of Health and Human Services (DHHS) has been required to apply budget reductions across DHHS which has reduced the Smart Start allocation by \$1 million in Fiscal Year 2012/13 and \$3.7 million in Fiscal Years 2013/14 and 2014/15, bringing the funding for the program down to \$147 million.

Smart Start Appropriation History (rounded to millions)



¹One-time budget reduction of \$16M reduced available 08-09 budget to \$194M

²One-time budget reduction of \$7M reduced available 09-10 budget to \$187M

³One-time budget reduction of \$6M reduced available 10-11 budget to \$182M

⁴One-time budget reduction of \$1M reduced available 12-13 budget to \$150M

⁵Recurring budget reduction of \$3.7M reduced available 13-15 budget to \$147M

NC Pre-K (More at Four)

Since 2001, North Carolina has provided full school day, public prekindergarten, now known as NC Pre-K, to more than 255,000 children. It is one of only five programs in the country to meet the National Institute for Early Education Research's (NIEER) 10 quality benchmarks for preschool programs.^{xiv}

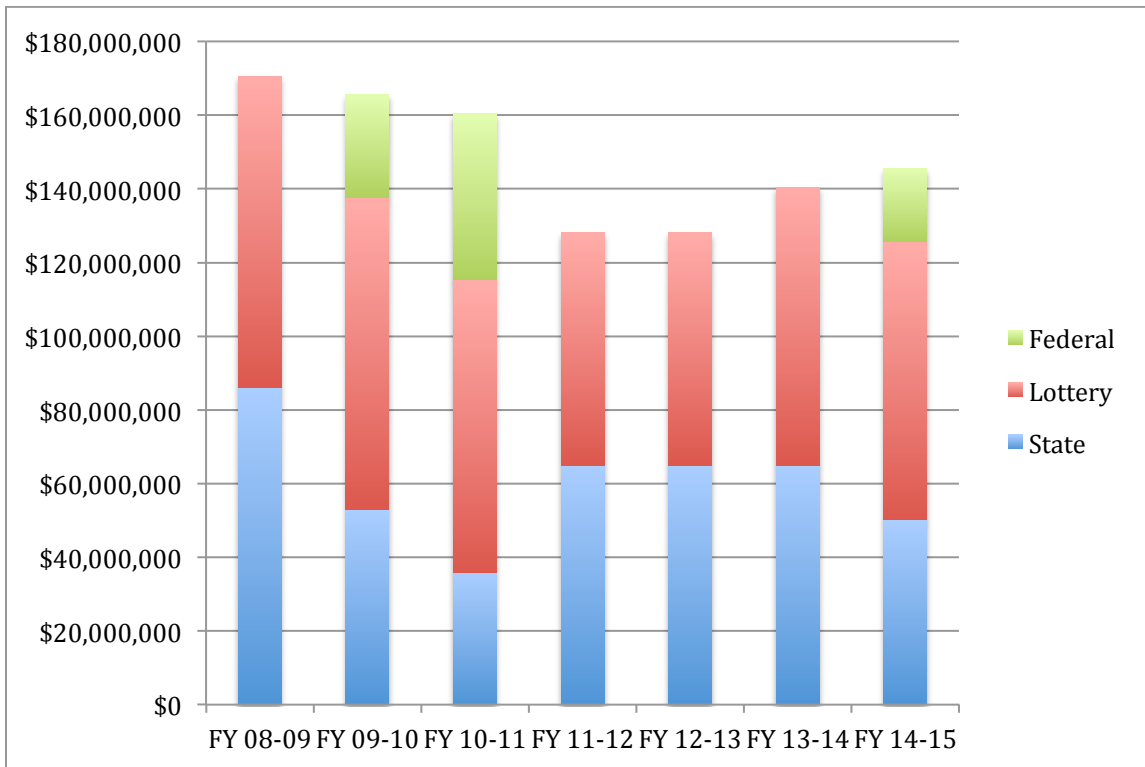
At the local level, a NC Pre-K Advisory Committee oversees the program, including developing operational policies and procedures, providing programmatic and fiscal oversight, and ensuring collaboration and shared responsibility for developing, and implementing a plan to deliver services. The committee is represented by local school boards and systems, the local Smart Start partnership, licensed child care providers, Head Start, Departments of Social Services, parents of preschool-age children, county cooperative extension agencies, and child care resource and referral agencies.

In the latest evaluation of NC Pre-K, researchers found that children are progressing at an even greater rate during their participation in NC Pre-K than expected for normal developmental growth.^{xv} Earlier research showed that at the end of third grade children from low-income families who had attended pre-k had higher reading and math scores on the North Carolina end-of-grade (EOG) tests and fewer special education placements than similar children who had not attended the state's program.^{xvi}

Historically, NC Pre-K (formerly More at Four) has been paid for with both state general and lottery funds. Total funding for NC Pre-K peaked in Fiscal Year 2008/09 at \$170.6 million, comprised of almost an even amount from both sources.^{xvii}

As with child care subsidy, the state began decreasing its general funds investment in favor of federal TANF funds when the recession hit.^{xviii} In Fiscal Year 2009-10 state general funds decreased from \$86 million to \$53 million.

State Funding History of NC Pre-K (rounded to millions)^{xxix}



*In SFY 11-12, a total of \$9.1 million in state funding was spent for one-time expansion of NC Pre-K.
In SFY 12-13, a total of \$12.4 million in state funding was spent for one-time expansion of NC Pre-K.*

Funding Oversight

The North Carolina House and Senate Appropriations Committees on Health and Human Services oversee funding for child care subsidy, Smart Start and NC Pre-K. Funding for these programs is part of the budget appropriated to the Department of Health and Human Services.

In Fiscal Year 2013/14, state funding for these three programs comprised 1.21% of the State's General Fund Budget.^{xx}

While each program has its own direct appropriation, operationally early childhood programs combine state and federal funding so that programs work for families, to maximize efficiency and to serve as many children as possible.

Note: Additional programs like early intervention^{xxi}, home visiting^{xxii}, child care resource and referral^{xxiii}, Head Start and Early Head Start^{xxiv} are vital components of ensuring that children have the optimal experiences to allow them to fulfill their potential. These programs either rely on federal dollars and/or comprise a significantly smaller portion of state dollars.

ⁱ Tout, Kathryn, Tamara Halie, Sarah Daily, Ladia Albertson-Junkans, and Shannon Moodie. The Research Base for a Birth through Age Eight State Policy Framework. Rep. N.p.: Child Trends, 2013. Print.

ⁱⁱ Heckman, James J. "Schools, Skills, And Synapses." *Economic Inquiry* 46.3 (2008): 289-324. Web.

ⁱⁱⁱ Total (state, lottery and federal) spending for the Child Care Subsidy Program was \$333.7 million in FY 11/12; \$331.7 million in FY 12/13 and \$325.3 million in FY 13/14. Total funding for Smart Start was \$150 million in FY 12/13; \$147 million in FY 13/14 and \$147 million in FY 14/15 (includes DHHS applied cuts for each year). Total funding for NC Pre-K was \$128.1 million in FY 12/13; \$140.5 million in FY 13/14 and \$145.5 in FY 14/15.

^{iv} The Great Recession officially began in December 2007. The FY 07/08 budget was passed prior to the date. State spending for the Child Care Subsidy Program in FY 07/08 was \$92.75 million and \$43.58 million in FY 13/14. State funding for Smart Start was \$194 million in FY 08/09 and \$147 million in FY 14/15. State funding for NC Pre-K was \$86 million in FY 08/09 and was \$50.2 million in FY 14/15.

^v Federal spending for the Child Care Subsidy Program increased from \$278.8 million in FY 07/08 to \$320.4 million in FY 08/09 and \$ 327.8 million in FY 09/10. State funding for the Child Care Subsidy Program decreased from \$92.8 million in FY 07/08 to \$44.9 million in FY 08/09 and \$57.2 million in FY 09/10. No federal funds were used for NC Pre-K until FY 09/10 (\$28 million), FY 10/11 (\$45 million) and FY 14/15 (\$19.8 million).

^{vi} Bond, J.T., Galinsky, E., & Sakai, K. (2008). *The 2008 National Study of Employers*. New York: Families and Work Institute.

^{vii} The Great Recession officially began in December 2007. The FY 07/08 budget was passed prior to the date. The state expended \$92.8 million in state general funds for the Child Care Subsidy Program. In FY 08/09, the state expended \$44.9 million in state general funds. That year the state drew down \$23.4 million in new TANF Contingency Funds and received \$21.5 million more in TANF Direct and CCDF Discretionary funds from the federal government.

^{viii} In FY 07/08 state spending for the Child Care Subsidy Program was \$92.8 million, and in FY 08/09 it was \$44.9 million. Figures exclude Smart Start spending on subsidy.

^{ix} In FY 08/09, the state spent \$23.4 million of federal TANF contingency funds.

^x In FY 09/10, the state spent \$47.3 million in CCDF ARRA funds. In FY 10/11, the state spent \$8.7 million in CCDF ARRA Funds and \$23.6 million in TANF ARRA Funds.

^{xi} National KIDS COUNT, October 2013.

^{xii} All subsidy spending data is from the NC Division of Child Care Development and Early Education.

^{xiii} Muschkin, C. G., H. F. Ladd, and K. A. Dodge. "Impact of North Carolina's Early Childhood Initiatives on Special Education Placements in Third Grade." *Educational Evaluation and Policy Analysis* (2015). Web.

^{xiv} Barnett, W.S., Carolan, M.E., Squires, J.H., Clarke Brown, K. (2013). *The state of preschool 2013: State preschool yearbook*. New Brunswick, NJ: National Institute for Early Education Research.

^{xv} Peisner-Feinberg, E. S., Schaaf, J. M., Hildebrandt, L. M., Pan, Y., & Warnaar, B. L. (2015). *Children's kindergarten outcomes and program quality in the North Carolina Pre-Kindergarten Program: 2013-2014 statewide evaluation*. Chapel Hill: The University of North Carolina, Frank Porter Graham Child Development Institute.

^{xvi} Muschkin, C. G., H. F. Ladd, and K. A. Dodge. "Impact of North Carolina's Early Childhood Initiatives on Special Education Placements in Third Grade." *Educational Evaluation and Policy Analysis* (2015). Web.

^{xvii} In FY 08/09 funding for NC Pre-K (then called More at Four) was comprised of \$86 million of state general funds and \$84.6 million in state lottery funds.

^{xviii} In FY 09/10 state general funding for NC Pre-K was \$53 million and federal funding was \$28 million. In FY 10/11, state funding was \$35.8 million and federal funding was \$45 million.

^{xix} Landry, Deborah. Pre-K and Smart Start Budget and Children Served. 11 Feb. 2014. Presentation to the Joint Appropriations Committee on Health and Human Services. North Carolina, Raleigh. http://www.ncleg.net/documentsites/committees/JLOCHHS/Handouts%20and%20Minutes%20by%20Interim/2013-14%20Interim%20HHS%20Handouts/February%2011,%202014/IVa%20Fiscal%20Research%20Division_LOC%20%20Pre-K%20Smart%20Start%20Feb%2011%202014.pdf

^{xx} Total State General Fund Budget for FY 13/14 was \$21.08 billion. State funding for the Child Care Subsidy Program (excluding Smart Start) was \$43.58 million; for Smart Start (including the DHHS applied cut) was \$147 million and for NC Pre-K was \$65 million.

^{xxi} Early intervention provides services to children under six that have been diagnosed with a disability, who are not learning and growing at the same rate as other children their age, or who are at risk of having developmental delays in their learning and growing.

^{xxii} Home visiting programs are voluntary family support and coaching programs provided by qualified professionals to parents, prenatally and/or with young children.

^{xxiii} Child care resource and referral (CCR&R) agencies link parents to quality child care, support and increase the supply of quality child care by providing technical assistance and professional development services for child care providers and provide communities and policymakers with child care supply and demand data. CCR&R is federally funded.

^{xxiv} Head Start and Early Head Start programs support the mental, social, and emotional development of children from birth to age 5. In addition to education services, programs provide children and their families with health, nutrition, social, and other services. These programs are federally funded.