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## The Missed Opportunity for North Carolina's Youngest Children

### How expansion of federal funding could have gone further to advance quality and access

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**N**orth Carolinians believe that every child should have the opportunity from their earliest years to learn in a quality setting and be supported in a safe and healthy environment that allows them to reach their full potential.<sup>1</sup> The rising cost of child care, the lack of quality child care slots in communities, and the high number of young children who are eligible but are not receiving child care subsidies is blocking children from quality early learning experiences that, in turn, support their healthy development and improved lifetime outcomes.<sup>2</sup> Public investments can remove these barriers to better outcomes for children, families, and the state by building a high-quality child care system for infants, toddlers, and preschool age children that is affordable and accessible.<sup>3</sup>

Recognizing this role for public investments and policy, bipartisan leadership in Congress voted in March 2018 to increase funding for the Child Care Development Fund Block Grant (CCDBG) by \$2.4 billion to help states conform to the 2014 reauthorization law. The reauthorization law established a framework for states to advance child care quality, safety, and access, while also providing states with further flexibility to meet the unique needs of young children and families in their communities.<sup>4</sup>

- 1 Tracy Zimmerman, NC Voters Want the State to Double Funding for Early Childhood, NC Early Childhood Foundation, (September 27, 2018), <https://files.buildthefoundation.org/wp-content/uploads/2018/09/2018-Voter-Poll-Release.pdf>
- 2 Douglas Rice, Stephanie Schmit, Hannah Matthew, Child Care and Housing: Big Expenses With Too Little Help Available, The Center on Budget and Policy Priorities and the Center for Law and Social Policy, (April 16, 2019), <https://www.cbpp.org/research/housing/child-care-and-housing-big-expenses-with-too-little-help-available>
- 3 Grover J. (Russ) Whitehurst, Why the federal government should subsidize childcare and how to pay for it, Brookings Institute, (March 9, 2017), <https://www.brookings.edu/research/why-the-federal-government-should-subsidize-child-care-and-how-to-pay-for-it/>
- 4 Christine Johnson-Staub & Shiva Sethi, From Opportunity to Change: State Experiences Implementing CCDBG, The Center for Law and Social Policy, (January 2019) <https://www.clasp.org/sites/default/files/publications/2019/03/Opportunity%20to%20Change%20Main%20Body.pdf>

As part of this expansion, North Carolina received an additional \$74 million in CCDBG funds.<sup>5</sup>

- In Fiscal Year 2019, state legislative leaders raided two-thirds of CCDBG expansion dollars (\$50 million) and reduced existing state commitments to early childhood programming overall rather than fully committing all federal dollars to deliver the highest level of child care assistance to North Carolina children and their families.
- The remaining dollars allowed the state to serve 3,700 more children<sup>6</sup>, continue to make progress on meeting requirements in the 2014 reauthorization law, and support quality initiatives like the Infant Toddler Educator AWARD\$ program, which helps to better compensate and retain infant and toddler educators.
- Unmet needs across the state remain, including thousands of eligible children without child care assistance, persistent child care deserts, and barriers to further enhancing quality through professional development and compensation programs for early childhood workers.

The child care subsidy program and supportive infrastructure and investments in child care centers and workforce are critical to advancing family economic security, intergenerational economic mobility, and stronger communities. When supported with public dollars, working parents earning low wages are more likely to obtain and maintain work with child care subsidy assistance, young children are more likely to be placed in quality care settings that increase their future success and earning potential, and the child care industry, which employs tens of thousands across our state, is better able to innovate and advance new practices.

As state lawmakers finalize the next two-year state budget for FY 2019-21, critical decisions for our state's youngest children are at stake, and the approach taken in FY 2019 should not be repeated.

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### **Child Care Development Block Grant: A critical tool for advancing quality and accessible child care in North Carolina**

Both federal and state governments provide funding to subsidize the cost of child care so that low-income families have access to and support for high quality care.<sup>7</sup>

When it comes to federal child care funding, the Child Care and Development Fund (CCDF) is the primary source for child care subsidies to assist low-income working families in affording child care (through a subsidy of the cost of tuition for child care services from infant to 5 years of age) and to improve child care quality. The CCDF comprises two federal funding streams: Child Care Entitlement to States (CCES) funds and discretionary CCDBG funds.<sup>8</sup> In order

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5 NC Early Childhood Foundation, A Look at the North Carolina General Assembly Budget Proposal, (May 30, 2018), <https://buildthefoundation.org/2018/05/a-look-at-the-north-carolina-general-assembly-budget-proposal>

6 NC General Assembly, Fiscal Year 2018-19 Budget: [https://www.ncleg.net/Sessions/2017/Budget/2018/conference\\_committee\\_report\\_2018\\_05\\_28.pdf](https://www.ncleg.net/Sessions/2017/Budget/2018/conference_committee_report_2018_05_28.pdf)

7 Department of Health and Human Services' Administration for Children and Families Office and Child Care, Federal and State Funding for Child Care and Early Learning, (December 2014), [https://child.careta.acf.hhs.gov/sites/default/files/public/federal\\_and\\_state\\_funding\\_for\\_child\\_care\\_and\\_early\\_learning\\_edited.pdf](https://child.careta.acf.hhs.gov/sites/default/files/public/federal_and_state_funding_for_child_care_and_early_learning_edited.pdf)

8 Congressional Research Service, Child Care Entitlement to States, (November 2018), Accessed at: <https://fas.org/sgp/crs/misc/IF10511.pdf>

to receive additional CCES funds beyond the “guaranteed” mandatory funding<sup>9</sup>, states are required to contribute a certain level of state dollars to demonstrate their commitment to the system; many states go beyond that required contribution to further invest in their state’s youngest children.<sup>10</sup>

There is broad recognition that increasing federal funding through CCDBG is needed to improve access to and quality of child care for the state’s youngest populations in light of the limit that a tuition-based system has to provide the funding level necessary to reach various quality standards.<sup>11</sup> If a child care center must primarily rely on tuition payments from parents, many of whom are squeezed by rising costs for the basics and modest, if any, growth in their wages, they will struggle to remain open or be forced to further increase tuition rates. This would push child care out of reach for more working families. In recognition that the benefits of a quality child care setting extend more broadly beyond the family to society, federal and state governments have subsidized the cost of child care services.

Currently in North Carolina, parents receiving child care assistance must still pay 10 percent of their annual income in child care tuition.<sup>12</sup> Notably, both House and Senate budget proposals for Fiscal Year 2019-21 propose reducing that required contribution to 9 percent, which would make progress toward the state goal of reaching a 7 percent contribution level by 2025.<sup>13</sup> Eighty-one percent of North Carolina families receiving child care assistance have incomes below \$25,000 a year, which for a family of four would be considered poverty-level income.<sup>14</sup> Child care assistance can make the difference in a monthly budget that is already stretched to cover housing, transportation, and food expenses for a family with young children.<sup>15</sup>

Child care represents one of the largest costs in a household budget, second often only to housing.<sup>16</sup> According to the 2019 Living Income Standard, a North Carolina family of four can expect to pay over \$1,500 a month in child care for their two children. But even families<sup>17</sup> who earn enough money to make ends meet can still spend close to a third

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- 9 CCES funds are allocated in two parts: (1) each state receives a fixed amount each year. This amount totals \$1.2 billion annually and is sometimes called “guaranteed” mandatory funding, as there are no estate maintenance-of-effort or matching requirements and (2) remaining CCES funds are allotted to states based on each state’s share of children under age 13. To receive these funds, a state must meet a MOE requirement set at 100% of the amount the state spent on welfare-related child care programs in the mid-1990s. See: Congressional Research Service, *Child Care Entitlement to States*, (November 2018), Accessed at: <https://fas.org/sgp/crs/misc/IF10511.pdf>
  - 10 Heather Hahn, Monica Rohacek, and Julia Isaacs, *Improving Child Care Subsidy Programs: Findings from the Work Support Strategies Evaluation*, Urban Institute, (February 2018) [https://www.urban.org/sites/default/files/publication/96376/improving\\_child\\_care\\_subsidy\\_programs.pdf](https://www.urban.org/sites/default/files/publication/96376/improving_child_care_subsidy_programs.pdf)
  - 11 The Center for Law and Social Policy, *\$5 Billion Child Care Increase Would Help Hundreds of Thousands*, (March 2019), <https://www.clasp.org/sites/default/files/publications/2019/03/State%20by%20State%20Impact%20of%20%245%20Billion%20FY2020.pdf>
  - 12 North Carolina Department of Human Health Services: Division of Child Development and Early Education, Services, Financial Services, Financial Criteria. Accessed at: <https://ncchildcare.ncdhhs.gov/Services/Financial-Assistance/Do-I-Qualify>
  - 13 NC General Assembly, 2019 Budget Proposals, <https://www.ncleg.gov/Sessions/2019/Budget/2019/H966-CSMLxfap-4v5.pdf> and <https://webservices.ncleg.net/ViewBillDocument/2019/4239/0/H966-PCS10621-MGxfap-6> and NC Early Childhood Action Plan, <https://www.ncdhhs.gov/goal-8-high-quality-early-learning>
  - 14 North Carolina Department of Health and Human Services Division of Early Childhood Development, *Child Care Subsidy Fact Sheet for 2017-2018*, [https://ncchildcare.ncdhhs.gov/Portals/0/documents/pdf/S/subsidy\\_county\\_fact\\_sheets\\_17\\_18.pdf?ver=2019-01-02-145541-140](https://ncchildcare.ncdhhs.gov/Portals/0/documents/pdf/S/subsidy_county_fact_sheets_17_18.pdf?ver=2019-01-02-145541-140)
  - 15 Nicole Forry, *The Impact of Child Care Subsidies on Low-Income Single Parents: An Examination of Child Care Expenditures and Family Finances*, Child Trends, (April 2009) <https://www.childtrends.org/publications/the-impact-of-child-care-subsidies-on-low-income-single-parents-an-examination-of-child-care-expenditures-and-family-finances>
  - 16 Aurelien, Martine, *A Two Generation Approach to Early Childhood and Kennedy, Brian, Living Income Standard*; <https://www.ncjustice.org/wp-content/uploads/2019/04/Living-Income-Standard-2019.pdf>
  - 17 The LIS constructs budgets for four representative family types, including but not limited to a four-person family which entails the following family characteristics: two adults (age 20-50); one infant (age <1); one preschooler (age 3-5)

(27 percent) of their household budget on child care.<sup>18</sup>

The promise of reducing the cost of child care to working families with low incomes has not fully been realized due to limited funding. Nationwide, just 8 percent of eligible children receive a child care subsidy based on federal eligibility thresholds, whereas 12 percent of eligible children receive a child care subsidy based on state eligibility thresholds. Access varies by the race and ethnicity of the child.<sup>19</sup>

When child care is not accessible, it ripples through the labor market and communities.<sup>20</sup>

Research by the Center on Law and Social Policy estimated that the expansion of federal funding in March 2018 would increase access for 230,000 young children nationally and 10,380 children in North Carolina.<sup>21</sup> Beyond the number of children served, the experience of other states has shown that CCDBG dollars provide critical support to supplement the compensation of child care teachers, improve reimbursement rates to providers, and strengthen the professional development and credentialing opportunities for educators and center leaders.<sup>22</sup>

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### **Analysis of funding trends shows critical role of federal dollars to child care system**

In North Carolina, Child Care Development Fund dollars support subsidized child care services, child care resource and referral services for families, education and compensation for child care teachers, technical assistance and training for child care providers, monitoring of child care programs, and facilitation of North Carolina's Star Rated License System for child care facilities.

To achieve these system-wide activities, the state has long committed other funds, primarily Temporary Assistance for Needy Families (TANF) Block Grant dollars and state appropriations, to meet the need and achieve the quality goals that will generate the greatest return for the state.<sup>23</sup> An analysis of historically available data on the total funding to child care subsidy before the Recession, comparing Fiscal Year 2007-08 to Fiscal Year 2017-18 shows the shift toward greater reliance on federal sources to meet the funding needs in North Carolina's child care system (see Figure 1).<sup>24</sup>

18 Kennedy, Brian, Living Income Standard; <https://www.ncjustice.org/wp-content/uploads/2019/04/Living-Income-Standard-2019.pdf>

19 Rebecca Ullrich, Stephanie Schmit & Ruth Cosse, Inequitable Access to Child Care Subsidies, The Center for Law and Social Policy, (April 2019) [https://www.clasp.org/sites/default/files/publications/2019/04/2019\\_inequitableaccess.pdf](https://www.clasp.org/sites/default/files/publications/2019/04/2019_inequitableaccess.pdf)

20 Nina Chien, Factsheet: Estimates of Child Care Eligibility & Receipt for Fiscal Year 2015, Office of the Assistant Secretary for Planning & Evaluation, U.S. Department of Health & Human Services, (January 2019), <https://aspe.hhs.gov/system/files/pdf/260361/CY2015ChildCareSubsidyEligibility.pdf>

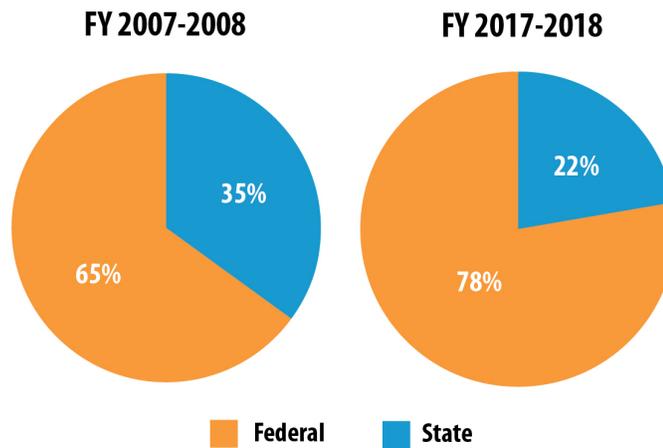
21 State-by-State Impact of Doubling CCDBG Funding in FY 2018, Center for Law and Social Policy, (February 2018), <https://www.clasp.org/sites/default/files/publications/2018/02/State%20Impact%20of%20Doubling%20CCDBG%20.pdf>

22 States Use New Child Care and Development Grant Funds to Help Children and Families, National Women's Law Center, (January 2019), <https://nwlc-ciw49tixgw5lbab.stackpathdns.com/wp-content/uploads/2019/01/NWLC-report-on-state-uses-of-new-child-care-funds.pdf>

23 NC DHHS, State Plans for Child Care and Development Block Grant Funds, Accessed at: <https://ncchild.care.ncdhhs.gov/Services/Child-care-Development-Fund-CCDF>

24 Special Data Request to the NC Department of Health and Human Services, June 2019. Data based on expenditures by fiscal year for child care subsidy.

**Figure 1:** Share of funding to child care subsidy from federal and state sources has shifted in N.C. over time.

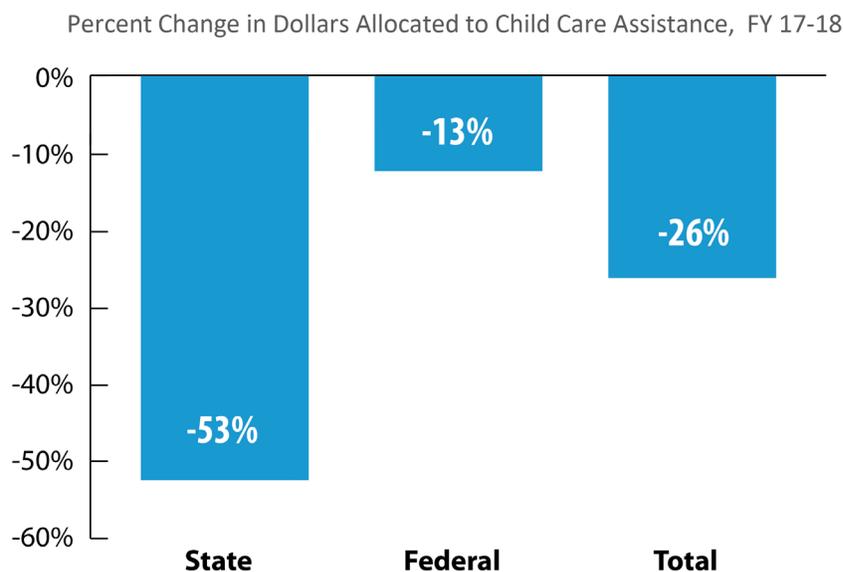


Source: Special Data Request to the NC Department of Health and Human Services, June 2019. Data based on expenditures by fiscal year for child care subsidy.

Note: Federal sources include all forms of federal funds, including but not limited to discretionary CCDBG funds.

The total dollars committed to child care in North Carolina has declined by 26 percent since Fiscal Year 2007-08 with state dollars since that time being reduced in real terms by 53 percent (see Figure 2). The federal dollars provided in Fiscal Year 2018-19 through the expansion of CCDBG provided a critical support to, in part, address this decade-long decline overall.

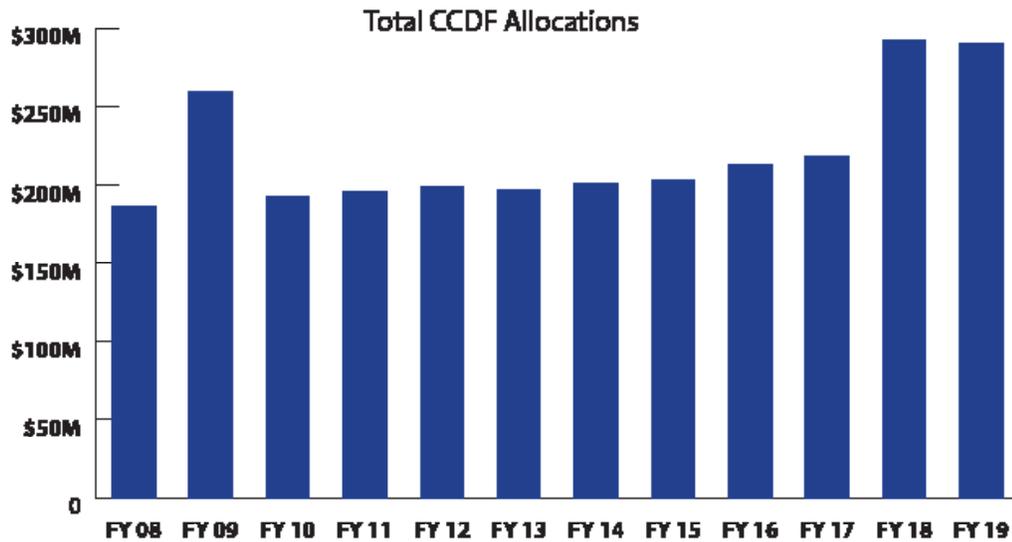
**Figure 2:** Declining commitment of state dollars keeps overall child care assistance funding below pre-Recession Levels (FY 2007-08).



Source: Special Data Request to the NC Department of Health and Human Services, June 2019. Data based on expenditures by fiscal year for child care subsidy.

As noted in Figure 3, the increase in federal dollars to North Carolina in recent years represented a 34 percent increase and, as has been noted nationally, was critical to forestalling the erosion of dollars for child care assistance that resulted in serving the smallest number of children in its history.<sup>25</sup>

**Figure 3:** The expansion of discretionary CCDBG dollars to the CCDF represented a significant bump in dollars available to North Carolina in recent years.



Source: U.S. Department of Health and Human Services, CCDF Allocations<sup>26</sup>

### Legislative leaders diverted two-thirds of the CCDBG expansion funding for North Carolina

Unfortunately, rather than demonstrate their commitment to affordable quality child care with the opportunity presented by additional federal dollars in FY 2018-19, state legislative leaders limited the reach of CCDBG by shifting dollars in a way that ultimately reduced the impact on the child care subsidy program by \$50 million, or two-thirds of the total expansion funding made available to the state.<sup>27</sup>

The shifting of dollars, while not in violation of federal rules that prohibit supplanting state commitments, violated the spirit of the law by taking advantage of greater flexibility with other funding streams — namely TANF — and the willingness of legislative leaders to prioritize a series of scheduled state tax cuts over maintaining General Fund availability for the full range of needs in communities.<sup>28</sup>

25 Office of Child Care, U.S. Administration of Family and Children Services, Child Care and Development Block Grant Expenditures, Accessed at: <https://www.acf.hhs.gov/occ/resource/ccdf-expenditure-data-all-years> and <https://www.clasp.org/sites/default/files/publications/2019/03/Opportunity%20to%20Change%20Main%20Body.pdf>

26 Note that FY 2009 allocations are from both the FY 2009 Omnibus bill and the American Recovery and Reinvestment Act (ARRA), see: <https://www.acf.hhs.gov/occ/resource/fy-2019-ccdf-allocations-based-on-appropriations>; and [https://www.everycrsreport.com/files/20100128\\_RL30785\\_dfb41fbf3773ffc5233b74c074e28a8ced86f40.pdf](https://www.everycrsreport.com/files/20100128_RL30785_dfb41fbf3773ffc5233b74c074e28a8ced86f40.pdf)

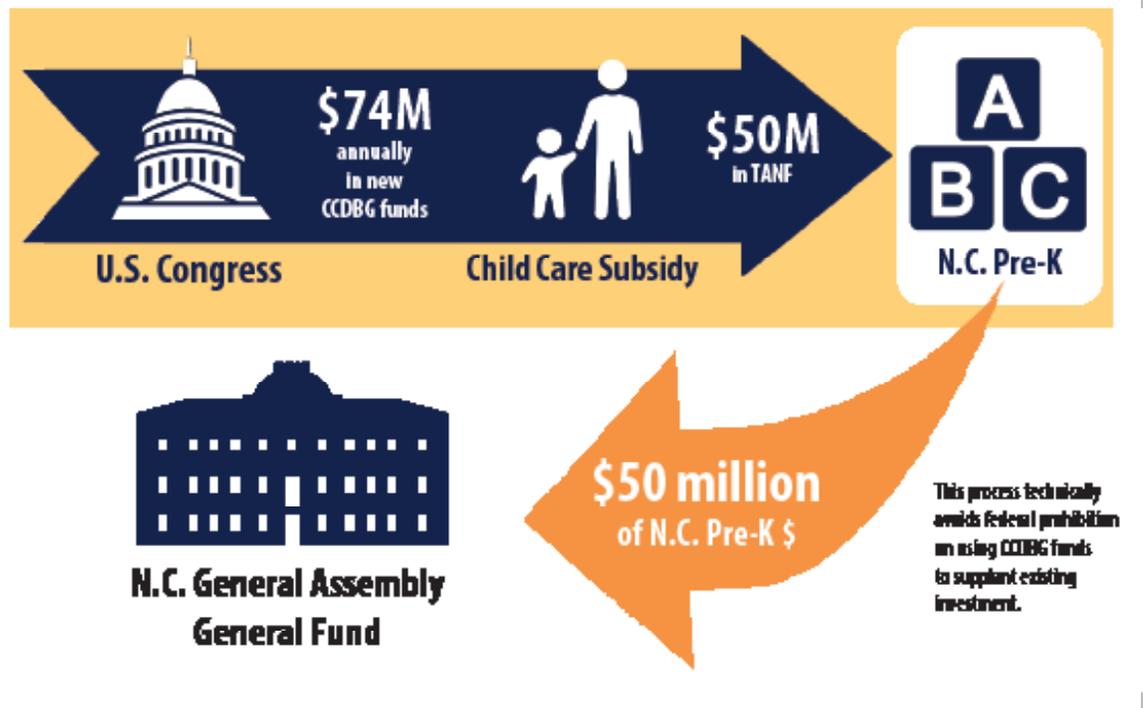
27 NC Early Childhood Foundation, A Look at the North Carolina General Assembly Budget Proposal, (May 30, 2018), <https://buildthefoundation.org/2018/05/a-look-at-the-north-carolina-general-assembly-budget-proposal/>

28 Sirota and Toledo, 2018 <https://www.ncjustice.org/publications/2019-budget-fails-to-effectively-address-n-c-s-existing-and-emerging-needs/>

Here is what happened (see Figure 4):

- Legislative leaders took \$50 million recurring TANF dollars from the child care subsidy program and then allocated those dollars to NC Pre-K;
- They made up for the \$50 million cut to the child care subsidy program by replacing it with the new CCDBG funding, dollar for dollar — effectively holding spending flat.
- Legislative leaders then removed \$50 million in state funding from NC Pre-K so that the General Assembly could use it for other purposes.

**FIGURE 4:** NC General Assembly budget decisions undercut expansion funding from CCDBG.



Source: Adapted from NC Health News, 2018

The remaining \$24 million from the CCDBG expansion that was dedicated to the state’s child care subsidy program allowed for important investments, even if more could have been accomplished.<sup>29</sup> The state was able to serve an estimated 3,700 more children from the waiting list, less than 1 percent of the total who are eligible under the federal standard but not served.<sup>30</sup>

<sup>29</sup> NC General Assembly, Senate Bill 9: The Joint Conference Committee Report on the Base and Expansion Budget, (May 28, 2019), [https://www.ncleg.gov/Sessions/2017/Budget/2018/conference\\_committee\\_report\\_2018\\_05\\_28.pdf](https://www.ncleg.gov/Sessions/2017/Budget/2018/conference_committee_report_2018_05_28.pdf)

<sup>30</sup> Author’s calculation based on the CLASP estimates of eligible and served children in North Carolina. This figure does not include those 87 percent of children eligible and not served under state standards despite the fact that budget language suggests that not all of the 3,700 newly served would be funded with CCDBG alone.

The state also in that year increased reimbursement rates to providers for child care services in Tier 1 and Tier 2 counties<sup>31</sup> with quality ratings of three-, four-, or five-star ratings for children 0 to 5 years old to 100 percentile of the market set in the 2015 Market Rate study, which was the last available at the time. In Tier 3 counties, state leaders moved the reimbursement rate for children 3 to 5 years of age up to 75 percentile of the 2015 Market Rate study, after having previously moved reimbursement rates up to that percent for the younger age group. Since the completion of last year’s budget, the state has released a new 2018 Market Rate study that incorporates the growing costs to compensate the workforce,

meet monitoring and credentialing requirements, and deliver a high-quality learning environment to each child regardless of the community conditions.<sup>32</sup>

**The additional \$50 million used to cover the loss of dollars from the transfer of TANF funds could have allowed the state to provide an additional 7,000 children with quality child care and make further progress on quality initiatives.**

While those efforts to align the provider-reimbursement rate were underway before 2018, the availability of additional funds allowed for those efforts not to reduce other critical investments in the same system. This includes new investments that were required and continue to be required to meet criminal background check standards and health, safety, and accessible requirements in the 2014 authorization law.

The additional \$50 million used to cover the loss of dollars from the transfer of TANF funds could have allowed the state to provide an additional 7,000 children with quality child care and make further progress on quality initiatives.

Had lawmakers put this \$50 million in the child care system, there would have been an estimated additional \$5.5 million in funding for quality initiatives due to the requirement to set aside a percentage of the total funds for quality initiatives.<sup>33</sup> These dollars would have allowed for greater reach in professional development, technical assistance, and resource connections for providers, as well as deeper support for child care homes. It also would have then provided space for other funds to expand wage supplements and credential awards for early childhood workers and to pursue new quality initiatives such as the potential creation of a program for children 0 to 3 years old modeled after NC Pre-K.<sup>34</sup>

31 North Carolina’s 100 counties are ranked based on economic well-being factors — average unemployment rate, median household income, percentage growth in population, and adjusted property tax base per capita — and assigned a tier designation with the most distressed counties designated as Tier 1, the next 40 as Tier 2, and the 20 least distressed counties designated as Tier 3. North Carolina Department of Commerce, <https://files.nc.gov/nccommerce/documents/files/LEAD-Memo-Changes-to-County-Development-Tiers-for-2019.pdf>

32 NC DHHS, Division of Early Child Development and Early Care, 2018 Market Rate Study. Accessed at: <https://ncchildcare.ncdhhs.gov/Home/DCDEF-Sections/Subsidy-Services/Market-Rates>

33 A portion of TANF funds are also set aside for initiatives that seek to enhance the quality of the child care system.

34 North Carolina Department of Health and Human Services, Legislative Report to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division, November 26, 2018, [https://ncchildcare.ncdhhs.gov/Portals/0/documents/pdf/S/SL\\_2018-5\\_Section\\_11B\\_2\\_b\\_Separate\\_Star\\_Rated\\_License\\_B-2\\_Final.pdf?ver=2019-03-26-161758-873](https://ncchildcare.ncdhhs.gov/Portals/0/documents/pdf/S/SL_2018-5_Section_11B_2_b_Separate_Star_Rated_License_B-2_Final.pdf?ver=2019-03-26-161758-873)

## A bright spot is the allocation of new federal funds toward infant and toddler quality

In recognition that infant and toddler educators in North Carolina experience the lowest wages in early education, the state has taken some important steps toward investing in its youngest children by also investing in the adults who care for them. With the 2014 reauthorization law and the requirement to set aside 9 percent of CCDBG dollars next year for quality efforts and 3 percent for improvements to infant and toddler care, the state had already begun plans to address the disparities in pay for infant and toddler educators. A total of \$3.1 million was dedicated to the Infant-Toddler AWARD\$ program in late 2018.<sup>35</sup>

Through the Infant Toddler Educator AWARD\$ program, infant and toddler teachers are given incentives to stay in the field and grow their own skills and knowledge, and the program helps address the compensation gap between infant-toddler teachers and preschool teachers as well.<sup>36</sup>

Across the state, salary supplements were awarded to over 900 eligible full-time infant and toddler educators with at least an associate degree in Early Childhood Education or its equivalent. This represents an estimated 34 percent of eligible infant and toddler educators in the state.<sup>37</sup>

With a commitment of \$6 million dollars — just a doubling of the current investment level — the program could serve all eligible infant and toddler educators in the state.

### Trend of swapping federal dollars likely to continue with proposed budgets for FY 2020 and FY 2021

House and Senate proposals for the next two-year budget (FY 2020 and FY 2021) continue to swap federal dollars and fail to commit additional state dollars compared to current services, holding down the state's overall commitment to keeping child care affordable and accessible.

House and Senate budget writers propose to increase total funding for the child care subsidy program for each year of the biennium budget. However, each budget proposal would reduce state support for these programs and increase federal support compared to the base budget — that is, they would shift toward a greater reliance on federal funding to support this crucial program. They also shift federal support further away from TANF and toward CCDBG again by

<sup>35</sup> Special data request from DCDEE, 2018

<sup>36</sup> Child Care Services Association, Inc. - <https://www.childcareservices.org/awards/>

<sup>37</sup> Special data request from the Child Care Services Association (CCSA) Inc.; according to CCSA there are 2,673 NC infant and toddler educators who are eligible for the AWARD\$ program. Therefore when we take the estimated 900 infant and toddler educators who are part of the AWARD\$ program and divide that by those who are eligible (2,673), we estimate a participation rate of ~ 34 percent.

the end of the biennium.<sup>38</sup> As explained below, each budget doubles down on supplanting state dollars compared with FY 2019, particularly the Senate budget in year two of the biennium.

More specifically, House and Senate budget proposals for FY 2019-20 do the following:

- The House budget supplants \$7 million of state funding with federal funding for the child care subsidy program:** While the budget increases funding, on net, for this program by \$6.6 million in FY 2019-20, it does so by increasing CCDBG dollars by \$13.4 million, increasing TANF dollars by approximately half a million dollars, and reducing state dollars by \$7.1 million.<sup>39</sup> It makes two swaps that are worth noting: (1) It makes a permanent nearly \$6.5 million cut to TANF support, which is possible due to the new CCDBG dollars, and (2) it also replaces \$7 million in state funding with an equivalent amount of TANF funds on a one-time basis.

While TANF dollars, on net, for this program are increased slightly for this fiscal year, the budget would cut TANF by more than \$1.6 million, on net, for this program in FY 2020-21. The budget also swaps TANF dollars for state dollars in the Pre-K program. The budget would also stall progress on quality by reducing more than \$500,000 of CCDBG dollars that currently fund quality initiatives to meet minimum federal requirements (rather than be above those standards).

- The Senate budget supplants \$5.4 million of state funding with federal funding for the child care subsidy program — an amount that more than doubles by FY 2020-21:** While the budget increases funding, on net, for this program by \$3.2 million in FY 2019-20, it does so by increasing CCDBG dollars by \$9.7 million, decreasing TANF dollars by nearly \$1.1 million, and reducing state dollars by \$5.4 million. It also makes two swaps that are worth noting: (1) It makes a permanent cut of nearly \$6.5 million to TANF support, which is possible due to the new CCDBG dollars, and (2) it also replaces \$5.4 million in state funding with an equivalent amount of TANF funds on a one-time basis.

In FY 2020-21, budget writers have more than doubled the amount that it supplants in state funding to \$12.6 million, effectively paid for by a nearly equivalent hike in CCDBG funding. The Senate proposal would also reduce \$500,000 of CCDBG dollars that are currently funding quality initiatives to meet minimum federal requirements.

All told, the House proposes a 1.7 percent increase to the child care subsidy program in FY 2019-20 over the base budget, and the Senate proposes a

<sup>38</sup> NC General Assembly, House Bill 966: 2019 Appropriations Act, (May 2019), <https://www.ncleg.gov/BillLookup/2019/h966>

<sup>39</sup> The budget eliminates three vacant positions, part of which are funding by receipts but it's not clear if those are TANF or CCDBG funds or other non-state funds.

0.81 percent increase. It is unclear whether additional children can be served with this scale of commitment to the program, and instead it is likely that maintaining the operation of the program for existing children will require these dollars.

Since both proposals slightly reduce the set-aside of Child Care and Development Block Grant funds for quality initiatives to the minimal level required by the federal government, it puts pressure on other funds to cover quality efforts.

A final budget for Fiscal Year 2019-21 is expected in Summer 2019.

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### **North Carolina's unmet need for quality, accessible child care hurts families, communities**

North Carolinians want to see policymakers make a significant investment to ensure more children can access quality early childhood education. In a recent public poll, 80 percent of North Carolinians prioritized early childhood investments above more business tax cuts.<sup>40</sup> In the state's Fiscal Year 2019-21 CCDBG Plan,<sup>41</sup> as required by federal statute, and a broader Early Childhood Action Plan,<sup>42</sup> as required by Executive Order of Governor Cooper in 2018, priority goals for child care have been identified to comply with the 2014 reauthorization law and guide our collective commitment to quality learning environments for our youngest children. In the area of child care, these plans articulate the need for reaching more children, increasing the credentialing and compensation for child care educators, and providing centers with the support to meet the highest quality rating standards.

If North Carolina policymakers had met the same level of commitment of state dollars in real terms made in FY 2007-08 to child care subsidy programming, there would be \$40.5 million more dollars in the system, which, in combination with the \$50 million in CCDBG expansion dollars, could be transformative for access to child care and the quality of child care statewide.

North Carolina could serve an estimated 12,600 children with quality child care opportunities in a year with the combined commitment of all the federal CCDBG expansion dollars and reaching prior levels of state appropriations.

A funding commitment in this range (\$40.5-\$90.5 million) could go a long way toward quality initiatives aimed at current unmet needs in North Carolina. Beyond the need to address the significant share of a family's monthly budget that must be dedicated to child care costs, particularly for those who earn low wages, and the compensation challenges for the early

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40 Tracy Zimmerman, NC Voters Want the State to Double Funding for Early Childhood, NC Early Childhood Foundation, (September 27, 2018), <https://files.buildthefoundation.org/wp-content/uploads/2018/09/2018-Voter-Poll-Release.pdf>

41 North Carolina Department of Health and Human Services, Child Care and Development Fund (CCDF) Plan For North Carolina FFY 2019-2021, Accessed at: [https://ncchild.care.ncdhhs.gov/Portals/0/documents/pdf/2/2019-2021\\_Child\\_Care\\_and\\_Development\\_Fund\\_Plan\\_Approved.pdf?ver=2019-02-04-090519-383](https://ncchild.care.ncdhhs.gov/Portals/0/documents/pdf/2/2019-2021_Child_Care_and_Development_Fund_Plan_Approved.pdf?ver=2019-02-04-090519-383)

42 North Carolina Department of Health and Human Services and the Early Childhood Advisory Council, NC Early Childhood Action Plan, (February 2019) Accessed at: <https://files.nc.gov/ncdhhs/ECAP-Report-FINAL-WEB-f.pdf>

childhood workforce, North Carolina does not serve all children who are eligible for the child care subsidy nor does the state have the number of programs and high-quality programs needed in every community to provide accessible high quality care to the state’s youngest children.

- **First, North Carolina is serving a fraction of the children eligible to receive child care subsidies with the assistance to make quality child care affordable.** The waiting list, which reflects just those who have applied, not all of those eligible, stood at 33,098 children as of March 2019.<sup>43</sup> North Carolina is serving just 10 percent of those eligible under federal standards.<sup>44</sup>
- **Second, In North Carolina, nearly 44 percent of residents live in a child care desert where there aren’t enough providers for the young children in the community.**<sup>45</sup> Scarcity in the number of licensed child care providers disproportionately affects families of color and those living in rural areas; 45 percent of Hispanic/Latino families and 54 percent of rural families are living in areas without enough licensed child care providers.<sup>46</sup> County level analysis produced by the NC Early Education Coalition found that:
  - » ***“There are 5.3 infants and toddlers for each licensed child care slot, well above the threshold for a child care desert.<sup>47</sup> 74 counties of the state’s 100 counties have five or more infants and toddlers per slot and over 90% of these 74 counties are rural Tier 1 and Tier 2 counties.<sup>48</sup> Ten counties have 10 or more infants and toddlers per slot, indicating extreme shortage.”<sup>49</sup>***
  - » **Currently in North Carolina, 75 percent of 3- to 5-year-olds receiving child care assistance are in a four- or five-star center while 77 percent of 0- to 3-year-olds receiving child care assistance are enrolled in a high quality center.<sup>50</sup>**

Not only are there too few child care programs available to children in families in many communities across the state, the number of quality child care programs is even fewer in many, particularly rural, communities (see Figure 5).

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43 North Carolina Department of Health and Human Services, Monthly Child Care Expenditure Report, April 2019, Accessed at: [https://ncchildcare.ncdhhs.gov/Portals/0/documents/pdf/A/April\\_2019\\_Subsidy\\_Expenditure\\_Report.pdf?ver=2019-05-13-113236-643](https://ncchildcare.ncdhhs.gov/Portals/0/documents/pdf/A/April_2019_Subsidy_Expenditure_Report.pdf?ver=2019-05-13-113236-643) Note: PDF is mislabeled, data reflects March 2019.

44 Rebecca Ullrich, Stephanie Schmit & Ruth Cosse, Inequitable Access to Child Care Subsidies, The Center for Law and Social Policy, (April 2019) [https://www.clasp.org/sites/default/files/publications/2019/04/2019\\_inequitableaccess.pdf](https://www.clasp.org/sites/default/files/publications/2019/04/2019_inequitableaccess.pdf)

45 Rasheed Malik, Katie Hamm, Leila Schochet, Cristina Novoa, Simon Workman, and Steven Jessen-Howard, America’s Child Care Deserts in 2018, (December 2018), Accessed at: <https://childcaredeserts.org/index.html?state=NC>

46 Ibid

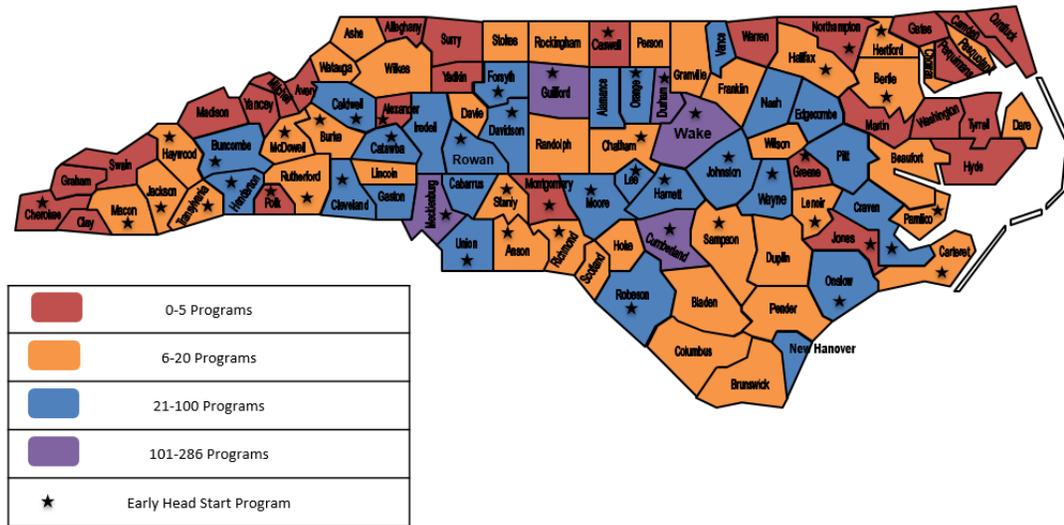
47 Jessen-Howard, S., Malik, R., Workman, S., & Hamm, K. (2018). Understanding Infant and Toddler Child Care Deserts. Center for American Progress.

48 Tiers are designated by the North Carolina Department of Commerce based on each county’s economic well-being.

49 Think Babies™ NC Leadership Team, Expand Quality Infant Toddler Child Care Programs, (January 2019), Accessed at: <https://nebula.wsimg.com/e5c0c06c1deb59cc218047d9a47820ba?AccessKeyId=B9633B2C26B44A314784&disposition=0&alloworigin=1>

50 Division of Child Development and Early Education (DCDEE), NC Department of Health and Human Services (NCDHHS), Percent of Eligible Children Whose Families Receive Child Care Subsidy and Are Enrolled in 4-or-5-Star Centers and Homes, (2019). Accessed at: <https://www.ncdhhs.gov/goal-8-high-quality-early-learning>

FIGURE 5: Four- and five-star programs serving infants and toddlers



Source: DCDEE, 2018 & DPI, 2018; Map prepared by: NC Early Education Coalition

### The chance to get it right

Federal and state dollars are critical to keeping child care affordable, accessible, and high quality. By failing to leverage new dollars to complement existing investment and increase services, North Carolina’s legislative leaders have blocked the pathway to reading by third grade, healthy development, and higher lifetime earnings for all children and disproportionately for children in rural parts of the state and children in families with very low incomes.<sup>51</sup> Over the course of a child’s lifetime, the missed opportunity of quality-learning environments in early childhood can be a barrier to opportunity, mobility, and well-being — which hurts all of us in North Carolina long-term.

North Carolina policymakers have the opportunity to build a child care system that serves more children with quality programming. To support children and families as they seek to reach their full potential, legislators must choose to allocate federal funding to the purpose of enhancing access and quality as it was intended and re-commit state dollars to this purpose. Only with the adequate allocation of public investments can we reach our shared goal that every child has a quality, safe, and affordable child care experience.

51 NC Early Childhood Foundation, High Quality Birth-to-Age Eight Early Care and Elementary Education: High Quality Birth-through-Age-Eight Environments with Regular Attendance. What Works for Third Grade Reading: NC Pathways to Grade Level Reading Working Paper. (August 2017) Accessed at: [https://files.buildthefoundation.org/wp-content/uploads/2018/07/Pathways-High-Quality-Education\\_Draft.pdf](https://files.buildthefoundation.org/wp-content/uploads/2018/07/Pathways-High-Quality-Education_Draft.pdf); Rasheed Malik, Katie Hamm, Leila Schochet, Cristina Novoa, Simon Workman, and Steven Jessen-Howard, America’s Child Care Deserts in 2018, (December 2018), Accessed at: <https://childcaredeserts.org> and Rebecca Ullrich, Stephanie Schmit & Ruth Cosse, Inequitable Access to Child Care Subsidies The Center for Law and Social Policy, (April 2019) <https://www.clasp.org/sites/default/files/publications/2019/04/2019-inequitableaccess.pdf>