

Children in the Federal and State Budgets: A Declining Priority?

AN ACTION FOR CHILDREN NORTH CAROLINA BUDGET REPORT

March 2009

Executive Summary

North Carolina thrives when all of us have the chance to succeed. Recovery from the current economic crisis requires that we pull together and invest in resources that will ensure our state's future strength. To create a lean budget that still supports meaningful services, state policymakers must be informed by previous budget reductions and have a vision for system change.

Recent years have seen declines in our federal and state commitments to children, the very resource that will drive our future success. Unfunded federal mandates in education and inaction on health care reform have driven up education and health costs for our state, forcing divestment from other key children's services. The current economic downturn has only worsened the trend.

To make difficult spending decisions, policymakers must call on the whole state to:

- **Reinvest** in those programs that have the most positive impacts on North Carolina's children and families;
- **Raise revenues** to cover part of the budget gap and reform our outdated revenue system for our 21st century economy; and
- **Reform state systems** to better incorporate recent research on what works. Modernizing our state systems so they support evidence-based programs and practices will require a plan that is collaborative, resourced and Governor-led.



Throughout history, our state and our nation have thrived when all of us have been provided with the opportunity for shared prosperity. We all benefit from the critical investments we have made in programs and services for our children and families. Today's children will be tomorrow's doctors, engineers, teachers and policymakers. We need them all to grow up healthy, safe and well-educated, so that they will provide the necessary determination and imagination to power our economy tomorrow.

In this time of economic turmoil, our state and federal leaders are stepping forward to guide us to a better place. Recovery will not be easy, but if we all pull together, we will make our way out of this crisis. We have done it before, and we will do it again. As a society, we must not lose sight of the long-term goals we have set for ourselves—shared prosperity and opportunity for all. These goals are achieved not by divesting of the government assets we have gradually built over the years, but by investing in those resources that will ensure our state's future strength.

Understanding recent history of state and federal funding for children's programs is essential to understanding the impact budget cuts would have today. If we are to end this recession with a lean, more efficient budget that can still support meaningful services, policymakers must consider previous trends and cuts in programming and have a vision for where they want system change.

Children in the Federal Budget

In recent years, children have been a declining priority for the federal government, both in terms of the share of overall spending and the share of new spending.¹

In terms of the federal budget — *not including* spending on defense — over the past five years:

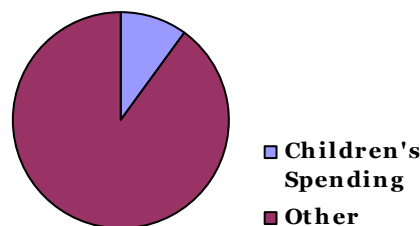
- The share of spending going to children's programs has dropped by 10 percent.
- Only one penny of every new dollar has gone to children's programs.

In 2008, children's spending made up only ten percent of the federal, non-defense budget.

Recent encouraging steps by the Obama administration and the new Congress suggest that children are becoming more of a priority at the federal level.

Health Care. The reauthorization of the **State Children's Health Insurance Program** (SCHIP) with additional funding means that the number of children covered nationwide under the plan will nearly double.

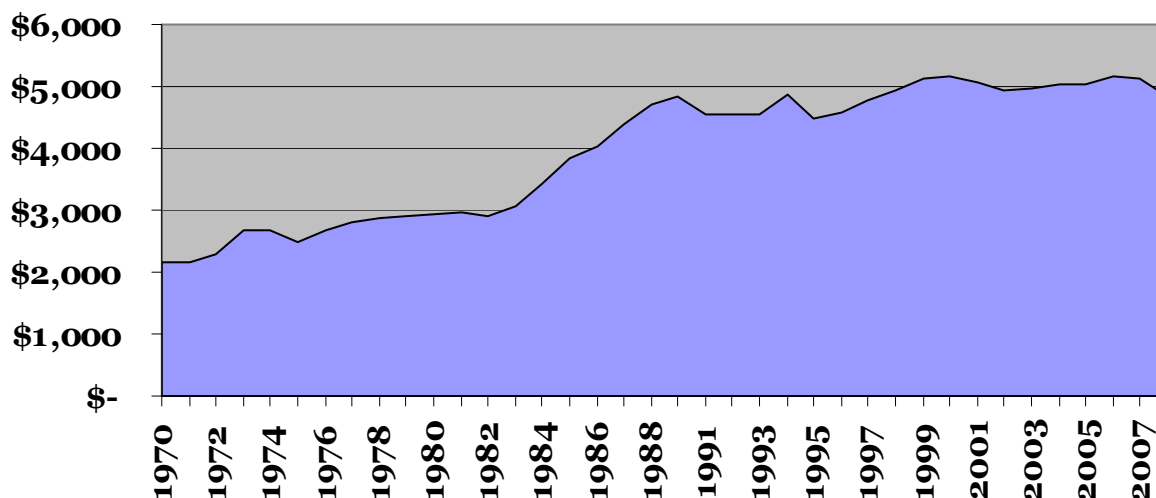
Only 10 percent of the federal, non-defense budget was spent on children in 2008



Source: First Focus, 2008, *Children's Budget 2008*.

Stimulus. The recently passed **American Recovery and Reinvestment Act** provides \$142 billion for children nationwide, including funding for Head Start, food stamps, Medicaid, foster care and adoption assistance, the education of homeless children and youth, the Social Services Block Grant and school modernization, and improvements to the Child Tax Credit. Overall, North Carolina will receive approximately \$6.1 billion from the package, some of which will be spent on children's services. Please visit www.firstfocus.net for more information.

Real state spending per school-aged child on K-12 public education has increased over the last 40 years



Source: Population estimates: LINC system and state demographer; Budget data: N.C. Fiscal Research Division, "North Carolina General Fund Operating Appropriations," 2007. Adjusted for inflation.

Spending bill. The House of Representatives recently approved an **omnibus spending bill for the remainder of 2009** that increases funding for children by \$3.5 billion, including increases in Title I education grants, Head Start, Low Income Home Energy Assistance (LIHEAP), adoption assistance, rental assistance and newborn screening services. Please visit www.firstfocus.net for more information.

President's budget. A recently released outline of President Obama's 2010 budget (www.whitehouse.gov/omb/budget) includes investments in children, including creating a reserve fund to finance health care reform; making permanent improvements to the Child Tax Credit and Earned Income Tax Credit (EITC); establishing a federal Nurse Home Visitation program; supporting efforts to reduce teen pregnancy and health disparities; and providing funding for Temporary Assistance to Needy Families (TANF), autism research, public education and early education (including Early Head Start and Head Start), the Child

Development Block Grant and the Affordable Housing Trust Fund.

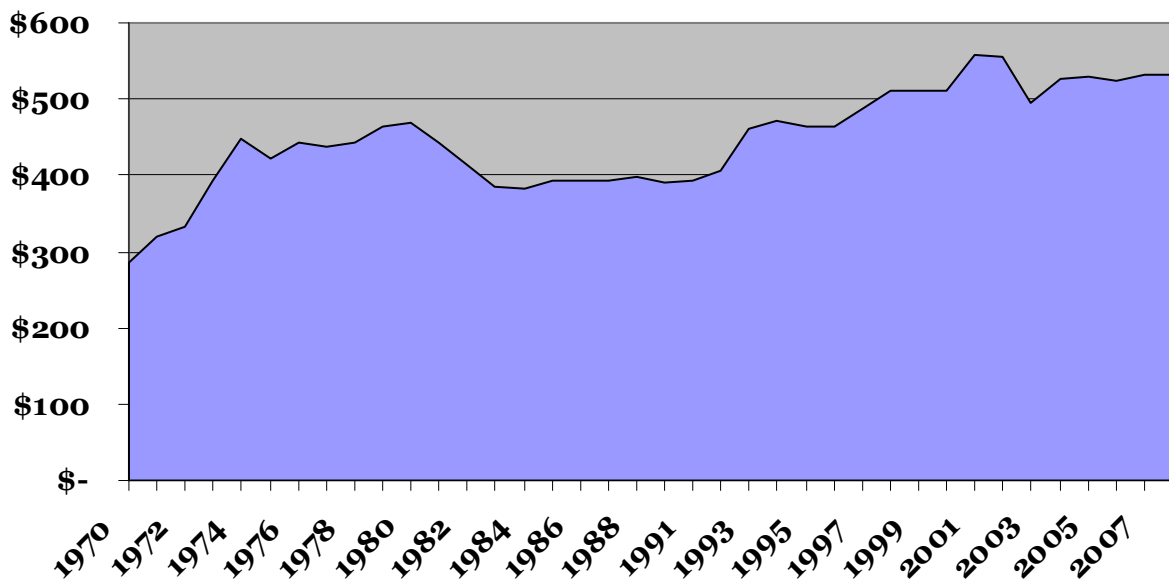
North Carolina's Commitment to Children

Health and Education Consume State Budgets

By necessity, the state of North Carolina spends a much higher percentage of its resources on children than does the federal government, since states are responsible for public education and large shares of Medicaid and the State Children's Health Insurance Program (SCHIP). In North Carolina, overall spending on public education and health and human services has increased steadily since 1970, after adjusting for inflation and population growth.²

This increase in state spending on children's health and education reflects the priorities of state policymakers, but also the federal government's inaction on these issue areas in

Real state spending on health has increased over the last 40 years



Source: Population estimates: LINC system; Budget data: N.C. Fiscal Research Division, "North Carolina General Fund Operating Appropriations," 2007. Adjusted for medical cost inflation.

recent years. The federal No Child Left Behind Act aimed to increase public school accountability and set laudable goals, but the legislation has never been properly funded. This has increased education costs in the states. America's health care system has long been known to cost businesses and individuals more per person than in other modern nations, yet America lags behind other modernized countries in health results and percentage of the population insured. The failure of Congress to enact comprehensive health system reform has shifted health care costs to states, businesses and families. Even though North Carolina has expanded public health coverage over the years, the state cannot keep up with the growing number of uninsured children and families that employers can no longer afford to cover.

Other Children's Spending Declines

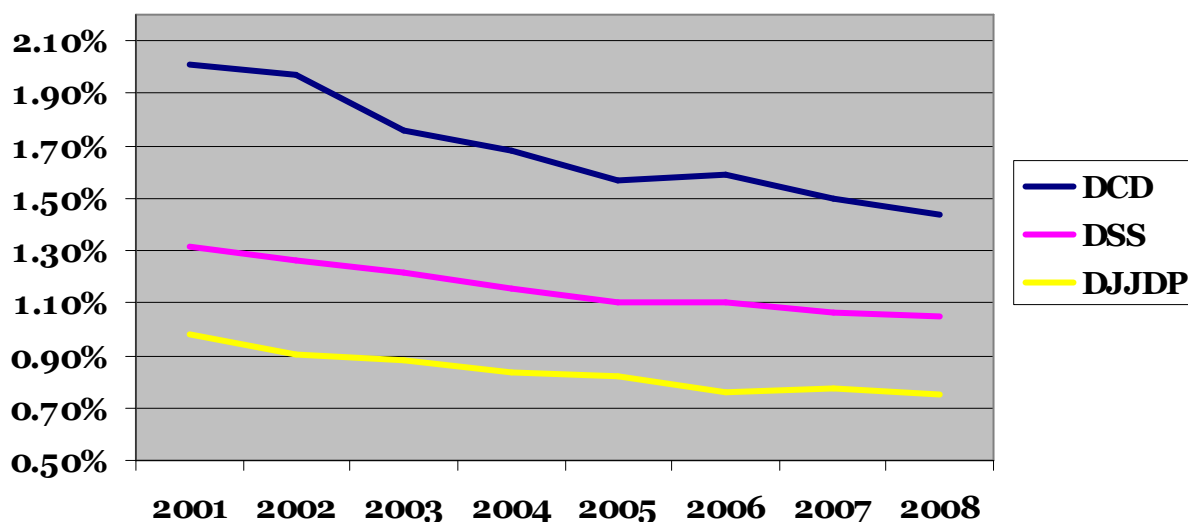
As health and education costs have shifted to state and county governments, the share of spending on other children's needs has fallen behind. **In fact, adjusted for inflation and**

population growth, state spending on children outside of health care and public education has declined over the last eight years.³

In real dollars, per-child spending for the Division of Child Development (DCD), the Division of Social Services (DSS) and the Department of Juvenile Justice and Delinquency Prevention (DJJDP) declined 19 percent from 2001 to 2008.⁴ These three agencies represent state spending on children outside of health care and education, including funding for child welfare, abuse and neglect prevention and intervention, foster care and adoption assistance, group homes, early education, child care regulation, child care subsidy for low-income working families, and services for court-involved youth.

Children's spending outside of health care and education has also declined over the last eight years as a share of total General Fund operations spending.⁵

State spending on children, not including health and education, has declined as a share of total state operating budget (2001-2008)



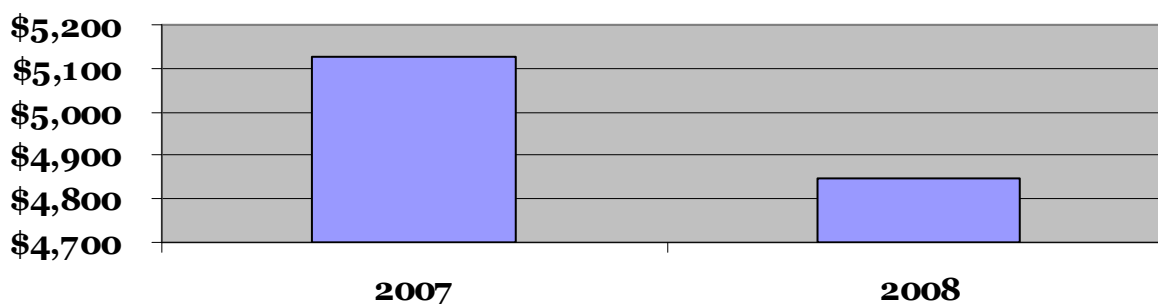
Sources: N.C. Fiscal Research Division, *Legislative Session Fiscal and Budgetary Actions Reports (2001-2008)*; and N.C. General Assembly Joint Conference Committee Budget Reports (2001-2008)

Current Year Spending for Children is Down and Still Falling

Even before recent (2009) cuts, overall real spending for children in the current year's budget (FY 2008-09), was down from 2007

levels. Funding for children outside of health care and education spending continued to decline in real dollars, and, reversing a long-time trend, **real spending on public education per school-aged child fell as well in 2008.**⁶

Real state spending per school-aged child on K-12 public education declined from 2007 to 2008, even before recent cuts



Sources: Population estimates: LINC system. Budget data: N.C. General Assembly Joint Conference Committee Budget Reports (2007, 2008). Adjusted for inflation.

In the past few months, Governor Perdue has had to make significant budget cuts in order to meet the state constitutional requirement that the state budget be balanced. She has implemented across the board percentage cuts in current year spending, causing additional harm to needed children's programs. Public education saw a 2 percent cut, Health and Human Services fell 4 percent, and juvenile justice was cut four to 5.5 percent. By the end of February, Governor Perdue had ordered most state agencies to cut up to 9 percent of their current year budgets.

Expectations for 2009-2010 and Beyond

Spending for children's services is expected to fall even further in 2009-10, due to the major downturn in the economy and state leaders' reluctance to increase revenues. The N.C. Budget and Tax Center warns of budget shortfalls in 2009-10 of up to \$4.5 billion, or slightly more than 20 percent of the current state budget. Though rainy day funds and federal stimulus will provide some relief, deeper cuts are on the table, including 7.5 percent for Health and Human Services and 4.5 percent for public education.⁷

The recession is not likely to end soon, and we know from past recessions that increases in revenues tend to lag behind economic recovery. The state budget picture for 2010-11, therefore, looks bleak as well.⁸

Recommendations

The current economic climate is both a crisis and an opportunity. In making difficult spending decisions, we must call on the whole state to invest in those programs that best support North Carolina's children and families. But we also must not miss this historic chance to change the way the state does business.

- **Reinvest.** Our state is strongest when all have the chance to succeed. North Carolina has invested in an effective infrastructure of programs and services for children and youth that help reduce the disparities in outcomes between those children with

resources and those without. We must remind our state leaders that the future strength of North Carolina's economy depends on how we support today's children, and encourage them to **invest the state's limited resources where they can have the most impact** — on programs and services for children and families that have been proven effective.

- **Raise revenues.** A budget shortfall of 20 percent of the total state budget cannot be dealt with through cuts alone. To avoid completely devastating the state infrastructure for children and families that North Carolina has invested in over the years, state leaders must consider **increasing revenues to cover part of the budget gap.** We must also urge policymakers to use this crisis as an impetus to **reform our outdated and inadequate state revenue system.** We need a tax system that is more adequate (revenues grow with the population), fair (those with smaller incomes pay a smaller share of their income in taxes) and stable (revenues fluctuate less with changes in the broader economy).
- **Reform systems.** We know what works to improve outcomes for children. Research has demonstrated which programs obtain the greatest results most efficiently. Yet our state systems, by and large, do not reflect this recent research. North Carolina needs a plan for evaluating current systems, funding streams and programs in all child-serving areas, including education, with the aim of modernizing them so that they support, rather than hinder, local implementation of evidence-based practices. To succeed, such a plan must be:
 - **Collaborative.** Families, direct service providers, local leaders and other community members, as well as advocates and state agency staff, must be at the table to create new, more effective state agencies. This cannot be a top-down proposition. Universities must be closely involved to educate the collaborative process and to help

translate research into policy and practice on the ground. State agencies must follow the localities' lead by blending resource streams wherever possible to address gaps in funding and to better meet children's needs.

- **Resourced.** An effort to build a statewide infrastructure for evidence-based practices must be properly funded and staffed with analysts capable of evaluating programs and performing cost-benefit analyses. Past Government Performance Audit Committee (GPAC) reports are useful tools, but this type of evaluation does not assess communities' needs or help create a new system that promotes and supports evidence-based practices. The state and localities should consider more regionalizing to pool limited resources.

- **Governor-led.** A plan to move the state toward evidence-based practices needs a strong, positive leader who sees program evaluation as informative and transformational, not punitive. Community needs assessments, program and practice evaluations and system-building efforts must be focused on using the best research available to move North Carolina's child-serving systems to the next level to ensure the best possible outcomes for all our children.

When resources become more limited, societies are forced to closely examine their priorities. Politicians and policymakers often say that children are their top priority, but parents, advocates, pediatricians and teachers must insist that children be prioritized not only in political speeches, but also where it really counts — in our annual state and federal budgets. The federal government has decided, in the face of crisis, to invest in our nation's children. We must do the same here at home.

Endnotes

¹ All data on the federal budget from *Children's Budget 2008*, First Focus (2008). Available online at: www.firstfocus.net. "Children" are all people under 18 years of age. Methodology: "for programs that directly benefit only children and families with children, the full funding level counts as children's spending. For programs that do not limit their benefits to children, the share of program funding that counts as 'children's spending' mirrors the percentage of program recipients who are children" (p. 7).

² Dollar amounts from "North Carolina General Fund Operating Appropriations," N.C. General Assembly Fiscal Research Division. Available online at: http://www.ncga.state.nc.us/fiscalresearch/frd_reports/frd_reports_pdfs/Budget_Development/BD_General_Fund_Operating_Appropriations_2007_and_prior.pdf. Education dollar amounts adjusted for inflation using the CPI Inflation Calculator, available online at: <http://data.bls.gov/cgi-bin/cpicalc.pl>. Health and human services dollar amounts adjusted for inflation using U.S. Medical Cost Inflation (1936-2007), available online at: <http://www.halfhill.com/inflation.html>.

Population estimates from Log Into North Carolina (LINC) system, available online at: http://data.osbm.state.nc.us/pls/linc/dyn_linc_main.show and from state demographer, available online at: http://www.osbm.state.nc.us/ncosbm/facts_and_figures/socioeconomic_data/population_estimates/county_estimates.shtm. "School-aged children" are all children aged 5-17; "per capita" determined using total North Carolina population numbers.

³ All state budget data since 2001 from annual Joint Conference Committee Reports, available online at: http://www.ncga.state.nc.us/fiscalresearch/budget_legislation/budget_legislation.shtml and from N.C. General Assembly Fiscal Research Division "Legislative Session Fiscal and Budgetary Actions" reports, available online at: http://www.ncga.state.nc.us/fiscalresearch/frd_reports/frd_reports.shtml. Child population estimates from the N.C. Office of State Budget and Management, available online at: http://www.osbm.state.nc.us/ncosbm/facts_and_figures/socioeconomic_data/population_estimates/county_estimates.shtm. "State spending

on children outside of health care and public education" is represented by funding for the following state agencies: Department of Child Development, Department of Social Services and Department of Juvenile Justice and Delinquency Prevention. Dollar amounts adjusted for inflation using the CPI Inflation Calculator, available online at: <http://data.bls.gov/cgi-bin/cpicalc.pl>.

⁴ Ibid.

⁵ Ibid.

⁶ Dollar amounts from annual Joint Conference Committee Reports, available online at: http://www.ncga.state.nc.us/fiscalresearch/budget_legislation/budget_legislation.shtml. Population estimates from LINC system, available online at: http://data.osbm.state.nc.us/pls/linc/dyn_linc_main.show. "School-aged children" are all children aged 5-17. See above reference for inflation adjustment source.

⁷ "Beyond the crystal ball: Projecting the 2009-10 general fund budget shortfall," N.C. Budget and Tax Center issue brief, February 2009. Available online at: http://www.ncjustice.org/assets/library/1386_btcbrief23feb09.pdf

⁸ Ibid.



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