Public Investments Matter for Child Well-Being: Smart State Policy Can Change Lives
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State policies that drive investments in children correlate with child well-being.

North Carolinians want all children to thrive. We want every child to have an equal opportunity, and we believe that where a child is born and lives should not dictate his or her chances in life. Studies show, however, that children’s well-being does depend on where they live. Two-thirds of public support for children comes from state and local sources, and those commitments vary widely among states.

North Carolina’s child well-being ranks a low 32nd in the country.¹ North Carolinians should be outraged that the South’s leading state is not producing better outcomes for our children. Research has determined that specific public policies and program investments improve child well-being. By investing in those programs and policies, North Carolina’s lawmakers can measurably improve child well-being in our state.

State Child Well-Being Index

Since 1975, The Foundation for Child Development has annually updated its Child Well-Being Index (CWI), a national, research-based composite measure that describes how children are faring in the U.S. The CWI is the nation’s most comprehensive measure of trends in the quality of life of children and youth, combining national data from 28 indicators across seven domains into a single numerical value that reflects overall child well-being. This tool is used similarly to the Consumer Price Index to inform policymakers and the public about how well our nation’s children are doing.

For the first time in 2012, in partnership with the Annie E. Casey Foundation, the Nelson A. Rockefeller Institute of Government and First Focus, the Foundation for Child Development has released a report detailing child well-being at the state level.² The comprehensive State Child Well-Being Index (State CWI) uses recent data to determine the well-being of each state’s children.³

The seven domains used in the State CWI are:⁴
• Family Economic Well-Being
• Health
• Safe/Risky Behavior
• Educational Attainment
• Community Engagement
• Social Relationships
• Emotional/Spiritual Well-Being

A comparison of state rankings shows that, on the whole, the southeast fares poorly in national comparisons of child well-being (Figure 1).

Figure 1: Child Well-Being in the U.S.

This study presents results for 2007, because this is the most recent year for which data are available from the National Survey of Children’s Health (NSCH), the only state-level source for several key indicators of child well-being. The relationships linking state tax rates, policies and CWI values, which have been calculated and presented for the first time in the State CWI, are consistent with earlier studies involving more specific analyses and are likely to be quite stable from year to year.⁵

At 32nd among the 50 states, North Carolina ranks higher than most other southern states in child well-being but in the bottom half nationally (Figure 2).

In addition to state rankings, the State CWI report includes new findings about the strength of relationships between state policies and selected economic and demographic factors indicative of child well-being. The report finds that certain key state policy decisions can have a significant impact on child well-being.

**Public Policies Impact Child Well-Being**

Broad demographic and economic factors play strong roles in child well-being, but they cannot be altered quickly by state and local governmental action. A third factor—state policy—has also been shown to play an important role. Since state policies can be altered relatively quickly through legislative action, they are the focus of this report.

The State CWI examines the correlations between specific state policies and overall child well-being. Figure 3 outlines four policies that showed a statistically significant correlation with overall child well-being. Each of the four is statistically significant at the highest level.

North Carolina ranked 32nd in the nation on overall child well-being in the State Child Well-Being Index which used 2007 data. Since 2007, investments in children in our state have declined. The following analysis uses data more recent than 2007, hypothesizing that the indicators of child well-being are even worse than in 2007, given those declining state investments.

**Highest Correlation with Child Well-Being: Taxes and Revenue**

The public policy in each state that most strongly correlates with high child well-being is the state and local tax rates and related revenues ($r = +0.50$).

Figure 4 shows that states with higher tax rates and revenues have higher child well-being scores than states with lower tax rates and revenues. In 2009, North Carolina’s overall tax rate was 9.8 percent, which ranks 16th in the nation. A state’s statutory tax rate does not mean revenues are parallel. Loopholes and exemptions can make the effective tax rate far lower.

Higher tax rates can produce more state revenue, if collections keep pace with the economy, which allows policymakers to invest more in evidence-based public programs for children.

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**Figure 2: National Rank, Overall and Individual Domain Child Well-Being, Southeastern States, 2007**

<table>
<thead>
<tr>
<th>Overall Ranking</th>
<th>Family Economic</th>
<th>Health</th>
<th>Safe/Risky Behavior</th>
<th>Educational Attainment</th>
<th>Community Engagement</th>
<th>Social R/Ships</th>
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**Figure 3: Correlation Between Overall Child Well-Being Index and Selected Public Policies, 2007**

<table>
<thead>
<tr>
<th>State Policy</th>
<th>Correlation Coefficient</th>
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<td>State and local tax rates</td>
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<td>Education spending per pupil</td>
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</tr>
<tr>
<td>Medicaid child eligibility as a percentage of federal poverty level</td>
<td>0.46 ***</td>
</tr>
<tr>
<td>Annual TANF benefit per child</td>
<td>0.40 ***</td>
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</table>

*** Significant at the .01 level

being such as child mortality, elementary school test scores and adolescent behavioral outcomes, the State CWI researchers concluded that, “States that spend more on children have better outcomes, even after taking into account potential confounding influences.”xii Researchers found that states with higher tax rates and revenues:

- Invest more money in public pre-kindergarten and full-day kindergarten, which gives at-risk children more time to ready themselves for elementary school.
- Invest more per pupil in elementary and secondary schools, supporting higher pay for teachers and improving access to state-of-the-art instructional resources.
- Have less restrictive eligibility rules for participation in Medicaid, allowing more children to enroll.
- Pay higher TANF benefits, increasing the economic resources available to families.xiii

Taking exemptions into account, the North Carolina tax rates fall in the low- to mid-range nationally. However, FY 2012 spending by most states—including North Carolina—has fallen to pre-2008 levels (Figure 5).xv

Going into fiscal year 2010, 48 states had to deal with budget shortfalls due to record declines in state revenue brought on by the national recession. States’ major source of revenue is state taxes, primarily personal and corporate income taxes and general sales taxes. Since the 2010 fiscal year began, the budgets of more than three-quarters of the states have fallen out of balance, as revenues have continued to fall short of expectations. To balance their budgets, at least 43 states have cut services over the past two years. Thirty states have both cut services and raised taxes.

State budget shortfalls overwhelmingly reflect falling revenues, resulting from the recession and the decline in economic activity, not increased state spending. In fact, state spending as a whole was smaller as a share of the economy in fiscal year 2008 (before the recession started) than in fiscal

![Figure 4. Relationship Between State and Local Taxes and CWI Rankings](image-url)

![Figure 5: Most States’ FY12 Spending Below Pre-Recession Levels](image-url)

*Note: Spending data are adjusted for inflation. Annual spending data are not available for some states that operate on two-year budget cycles; these include Oregon and Washington. Kentucky, Virginia, and Wyoming are in the middle of their two-year budget cycles and were therefore excluded. Indiana is excluded because its spending growth since 2008 is largely attributable to a major change in education finance policy in 2009 that shifted spending from local to state level. Connecticut and Massachusetts’ spending figures were adjusted to net out federal funding, to the extent possible. Both North Dakota and Alaska will spend over 50 percent more than they did in 2008. Texas will spend about 5.6 percent more. Texas’ spending increase in 2012 masks a severe drop in spending that will hit in 2013, the year of the state’s biennium. The drop is so extreme that 2013 spending will fall well below 2008 levels.*

The choices of North Carolina’s policymakers will impact the state’s ability to collect adequate and responsible revenue. Comprehensive revenue modernization is necessary to sustain North Carolina’s public structures in the long term.

**Second Highest Correlation: Education Investment per Pupil**

The amount spent per pupil for elementary and secondary schools is strongly correlated with higher State CWI scores ($r = +0.47$).

In spite of evidence that dedicating state resources to education improves child well-being, North Carolina has cut investments in K-12 education, pre-kindergarten and higher education in recent years.

**K-12 Education Cuts**

Elementary and high schools are receiving less state funding than last year in at least 37 states, and in at least 30 states school funding now stands below 2008 levels—often far below.

The 2011-2013 North Carolina budget cut public education by more than $450 million.
million in each year of the biennium. The budget reduced by 80 percent funds for textbooks; by five percent funds for support positions, like guidance counselors and social workers; by 15 percent funds for non-instructional staff; and by 16 percent salaries and benefits for superintendents and other officials and staff.

Figure 8 from the Center for Budget and Policy Priorities shows that North Carolina has cut real per student spending by 14.7 percent—the 9th highest percentage cut in the nation. Due to nearly $1 billion in state cuts to K-12 education over the last two years, North Carolina has dropped to near the bottom nationally in school funding and teacher pay. After decades of progress, North Carolina now ranks 46th in the nation in spending per pupil, according to the National Education Association’s Rankings of the States 2010 and Estimates of School Statistics 2011. Preliminary data show the national average spent per pupil is $10,826, compared to $8,303 in North Carolina. Education Week’s Quality Counts report, even after adjusting for regional cost differences, places North Carolina 49th out of the 50 states and the District of Columbia in per-pupil expenditures in its January 2011 edition. North Carolina’s commitment of only 2.8 percent of its taxable resources to schools is the second lowest in the Southeast—only Tennessee’s score is worse.

Resources make a difference. Of the eight states nationwide with the highest average reading scores (combining fourth grade and eighth grade scores), five are among the top eight states in the State CWI. Six of the eight states with the lowest average reading scores are ranked among the seven states with the lowest State CWI values.

Pre-Kindergarten Cuts

North Carolina’s national model pre-kindergarten system has also received budget reductions. Both the state-funded pre-kindergarten program for at-risk 4-year-olds and Smart Start, the state’s early childhood development network that works to improve the quality of early learning and child outcomes, were cut by 20 percent in the 2011-13 state budget. These budget cuts and the potential for more combined with recent proposals to cut eligibility numbers by more than half and to force out the highly effective public pre-k sector in favor of private and for-profit care, will diminish the state’s child well-being for years to come. Research shows that every dollar invested in early childhood education yields a minimum $7 return.

Researchers at Duke University have found that increases in state spending on N.C. Pre-K (then known as ‘More at Four’) and Smart Start in the 1990s and 2000s were associated with increases in third grade test scores years later.
The study found that, after controlling for demographic factors (such as birth weight and mother’s education) and other differences between counties and over time, the average state investment in pre-kindergarten and Smart Start produced an increase in test scores that amounted to around half a school year of third grade instruction. The effects are larger for children whose mothers do not have high school diplomas. The researchers concluded that, “The magnitudes of these outcomes suggest that the benefits of each program exceeds its costs, and consequently that the programs have been a cost-beneficial investment for the state.”

A national study by Reynolds & Temple concludes that, based on the most scrutinized programs, public returns on investment for pre-school programs when children reach their twenties vary between $2.69 and $7.16 in constant dollars depending on the nature and quality of the education. Adding in private returns shifts the benefits upward to between $3.78 and $10.15 in constant dollars per dollar invested.

**Higher Education Cuts**

North Carolina cut nearly half of a billion dollars from higher education in each year of the biennium compared to the amount necessary to provide the same level of higher education services in 2012 as in 2011. These cuts mean, for example, that full-time resident community college students could see their tuition increase by more than 20 percent by FY 2013.

Investing in education can directly improve child well-being. North Carolina lawmakers would do well to recommit themselves to protecting the state’s pre-k through university education system.

**Third Highest Correlation: Medicaid Child Eligibility as a Percentage of the Federal Poverty Level (FPL)**

Children’s eligibility for Medicaid is also associated with higher State CWI values ($r = +0.46$).

Covering children improves well-being. Of the eight states with the highest child health insurance coverage, four also have State CWI values in the top seven, while of eight states with the lowest coverage rates; five are among the six lowest states in terms of CWI value.

In North Carolina, very young children (ages birth to 5) living in families with incomes below 200 percent of the FPL are eligible for Medicaid; children ages 6-19 living in families with incomes under 100 percent of the FPL are also eligible. Older children (ages 6-19) in families with incomes between 100 and 200 percent of FPL are eligible for N.C. Health Choice, the state’s CHIP program.

Between December 2007 and February 2012, the numbers of children eligible for N.C. Health Choice grew by 25 percent. During the same period, the number of children in the “infants and children” Medicaid eligibility category increased by 42 percent to over 668,000. Once children in the “disabled” and other categories are included, the total number of children eligible for Medicaid tops 900,000.

Access to preventive and primary care is critical to assuring the health of North Carolina’s children. Unlike the declines seen in education investments in recent years, state lawmakers have wisely invested in children’s health insurance. Despite a continuing decline in employer-sponsored health insurance in our state, overall coverage rates among children have been sustained by expansions of public investment in Medicaid and N.C. Health Choice. From 2005-2010, there was a 24.3 percent increase in the number of children covered by public health insurance (either N.C. Health Choice or Medicaid) in North Carolina.

Legislation adopted in 2011 extends Community Care of North Carolina (CCNC), the state’s recognized system of managed care, to children enrolled in N.C. Health Choice. This expansion will create cost savings for the state and improve health outcomes for children by connecting them with medical homes and improving the quality of care.

In 2010, however, 18.4 percent of North Carolina’s children below 200 percent of the FPL remained uninsured. In addition, the state budget cut some Medicaid provider rates by at least two percent and required additional cuts in other Medicaid services and benefits.

Figure 9 shows income eligibility thresholds for Medicaid and CHIP
programs across the nation. Raising North Carolina’s Medicaid threshold above 185 percent of FPL and the N.C. Health Choice threshold above 200 percent of FPL would mean better health outcomes for more of our children.

**Fourth Highest Correlation: TANF Benefit per Child**

There is a strong correlation between higher Temporary Assistance for Needy Families (TANF) benefits and State CWI values \( r = +0.40 \). xxxiv

Temporary Assistance for Needy Families (TANF) cash assistance provides monthly cash benefits to very low-income families based on eligibility standards set by the states. Recipient families must fulfill ongoing work requirements, and there is a time limit on benefits. TANF helps states meet critical needs for families with children in or near poverty, like child support enforcement funding, resources to make child care more affordable, job training to help parents hit by job losses find new careers and help young adults begin theirs, and resources to prevent child abuse and neglect and meet the needs of abuse and neglect victims.

The federal government sets basic rules for administering TANF cash assistance, but states have responsibility for developing their programs. Income eligibility limits and benefit levels vary widely. More than one-third of the states have an income limit of less than 50 percent of the federal poverty level, while in other states families with earnings above 100 percent of the federal poverty level may qualify for benefits. Similarly, maximum benefit levels vary from less than $200 to nearly $1,000 per month for a single-parent family of three. To be eligible in North Carolina, a family can earn up to 200 percent of the federal poverty level.

States receive varying rates of per-child TANF funding from the federal government. North Carolina currently receives $600 per child in poverty, while California, for example, receives more than three times that amount at $2,021. xxxv A 2011 analysis by First Focus, xxxvi shows that, because the 1996 welfare law that created TANF failed to index state funding levels to inflation and changes in child poverty rates (a typical shortcoming of block grants), states like North Carolina have been under-funded as inflation has eroded their TANF funding’s purchasing power and as child poverty rates have increased during tough economic times.

Congress has attempted to mitigate this disparity through a TANF Supplemental Grants initiative, but those grants only reduced the shortfall and did not level the playing field, especially because several high-need states were not included in the initiative. To compound the problem, TANF Supplemental Grants will be discontinued for all states unless Congress acts to restore them. While doing so would not solve the problem, allowing TANF Supplemental Grants to expire would widen the funding gap for under-funded states.

**Conclusion and Recommendations**

1. **Public investments in children matter.** The amount of public investments in programs is strongly related to Child Well-Being Index values among states. Specifically, higher per-pupil spending on education, higher Medicaid child-eligibility thresholds, and higher levels of Temporary Assistance for Needy Families (TANF) benefits show a substantial correlation with child well-being across states.

2. **Higher state revenues are better for children.** States that have higher tax rates and generate higher revenues have higher Child

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**Figure 9: Income Eligibility Limits for Children’s Regular Medicaid and Children’s CHIP-funded Medicaid Expansions as a Percent of Federal Poverty Level**

Source: Kaiser Family Foundation. statehealthfacts.org/comparemapreport.jsp?rep=76&cat=4&sub=53&rgnhl=35
Welfare Index values than states with lower tax rates and revenues.

3. A child’s well-being is strongly correlated with where he or she lives. Child well-being varies tremendously from state to state, ranging from a +0.85 index value for New Jersey, the highest ranked state, to a -0.96 index value for New Mexico, the lowest-ranked state. State Child Well-Being is lowest in the south and southwest.

In North Carolina, state investments that improve child well-being are on the decline.

On June 15, 2011, the North Carolina General Assembly enacted a biennial state budget for fiscal years 2011-13. In order to assess the economic impacts of the budget, it is critical to understand the overall shape of both the state’s spending plan and tax plan. Despite facing an estimated $2.6 billion revenue shortfall in FY 2011-12, the legislature included revenue reductions in the state budget. Although legislative investments in children’s health insurance held, key work supports and early education supports declined amid state budget shortfalls.

As enacted, the biennial budget includes state and federal spending cuts to core public investments like education, health care and public safety of $1.9 billion in FY 2011-12 and $2.6 billion in FY 2012-13, with one-time transfers and accounting changes taken into account. The budget’s tax-cut package totals $1.46 billion in FY 2011-12 and $1.68 billion in FY 2012-13.

Divestments can be grouped into three major categories:

1. Cuts to K-12 and higher education, including community colleges and the university system ($858 million in FY 2011-12 and $861 million in FY 2012-13)

2. Cuts to non-education state spending, including Health and Human Services, Medical Assistance, Public Safety, Natural & Economic Resources and General Government ($684 million in FY 2011-12 and $903 million in FY 2012-13)

3. Foregone federal matching funds for Medicaid and CHIP due to an insufficient state share of contributions to these programs ($440 million in FY 2011-12 and $833 million in FY 2012-13). Cuts to the Division of Medical Assistance (Medicaid) of around $300 million and the subsequent loss of over $500 million in matching federal dollars are devastating. Most Medicaid enrollees are children.xxxvii

Recommendation #1: Taxes and Revenue

Restore and expand state revenues quickly and target investments to get the economy back on track by:

- Improving contributions. Ensuring that all businesses and individuals are contributing their fair share to the well-being of children in North Carolina.

- Modernizing state revenue systems. Ensuring that North Carolina has adequate revenues in the future to invest in children’s long term success.
• Leveraging federal dollars through health reform. Since state economies get a boost when new income flows into the state, policymakers should look for opportunities to attract more federal dollars, such as by expanding state Medicaid coverage to more low-income adults. Under the federal health reform law, the federal government will pay for part of an expansion now and, in 2014, will cover the full costs. That will allow the state to shift its own funds to other priorities that save jobs and help build a strong future economy.

Recommendation #2: Education Investment per Pupil
Increase per pupil spending by at least 14 percent by 2015. A 14 percent increase would move North Carolina closer to the national average of per pupil spending. A full 30 percent increase would be necessary to bring our state’s investment per child up to the national average.

Recommendation #3: Medicaid and N.C. Health Choice Enrollment
Increase income eligibility for Medicaid to 200 percent of the FPL and increase income eligibility for N.C. Health Choice to 250 percent of the FPL by 2015.

Recommendation #4: TANF Benefit per Child
North Carolina’s Congressional Delegation should work to:
1. Adopt the TANF Supplemental Grants Extension Act (H.R. 2277) and broaden it to make other under-funded states eligible for Supplemental Grants;
2. Tie TANF funding to inflation and need, so funding adjusts with child population and economic changes; and
3. Designate reducing child poverty an official purpose of federal TANF funding to states, ensuring that funds continue to meet children’s needs during tough state budget debates.
Endnotes


ii  Ibid.

iii  Ibid.

iv  Ibid.

v  Ibid.

vi  Ibid.

vii  Ibid.

viii  Ibid.

ix  Ibid.

x  Tax Foundation calculations based on data from the Bureau of Economic Analysis, the Census Bureau, and the Council on State Taxation. Available online at: www.taxfoundation.org/taxdata/show/472.html

xi  Tax Foundation. Calculations based on data from the Bureau of Economic Analysis, the Census Bureau, the Council on State Taxation, the Travel Industry and others. Available online at: http://www.taxfoundation.org/taxdata/show/472.html

xii  Ibid. Page 5.

xiii  Ibid. Page 5.


xvii  Ibid.


xx  Ibid.

xxi  Ibid.


xxv  Ladd, Muschkin & Dodge (2011) “From Birth to School: Early Childhood Programs and Third Grade Outcomes in North Carolina” (September), Working paper, Sanford School of Public Policy, Duke University. (to be presented at: The 37th Annual Conference of The Association for Education Finance and Policy, March 15-17, 2012 Hyatt Regency Boston, Massachusetts)


N.C. Division of Medical Assistance. Available online at: http://www.ncdhhs.gov/dma/pub/index.htm


Ibid.