



Local Financing Options for Early Childhood Development

A REPORT BY THE

Blue Ribbon Commission

NC STATE UNIVERSITY | Institute for Emerging Issues



Report of the Blue Ribbon Commission on Local Financing Options for Early Childhood Development

January 2018

Executive Summary

A combination of changing technology and demographics is creating a critical challenge for North Carolina's economy.

- Automation and technology are ratcheting up the skills and knowledge workers need to secure good-paying jobs.
- North Carolina's population is aging. Going forward there will be a lower percentage of children and working age citizens and many more elderly.
- Increasing percentages of those working will be from groups with traditionally lower levels of education achievement.

These changes put increasing pressure on our education systems to assure that greater percentages of students emerge from the classroom fully prepared to participate in the economy.

The science of brain development clearly demonstrates that a foundation for success in school and life is best built during the first years of a child's life: students who enter school with poor learning skills are unlikely to catch up. Get the development process right and a child is well positioned to build the hard and soft skills demanded by today's employers. While adverse early development experiences can be overcome through dedicated interventions, they require more time and resources and come with no guarantees of success.

Providing high quality early childhood experiences takes significant resources. Historically, federal and state governments have provided the large majority of early childhood development funding in our state, as they do across the country. But with competition for this funding increasing, many communities across the state are looking to boost local efforts and outcomes.

During the Fall of 2017, members of our commission met to explore a wide range of local public and private funding streams either available or potentially available to communities seeking to increase investment in and the effectiveness of early childhood development services. Over the course of four meetings, we drew upon the knowledge of experts from the NC Association of County Commissioners, NC Department of Commerce, NC Department of State Treasurer, the NC Early Childhood Foundation, NC Rural Center, The Forum for Youth Investment, Social Finance and the Public Consulting Group.

This report summarizes what we heard and recommend. In Section I, we look at the growing evidence of the important role early childhood investment plays in our economic development future. Section II examines the costs and current funding picture for early childhood investment. Section III outlines available and potential sources our counties have to increase investment in early childhood. We conclude with a discussion of our four main findings:

- Private and public capital play different—and complementary—roles in early childhood development. Private capital (from businesses, banks and foundations) is best suited for piloting new, innovative, higher risk approaches; public capital (from federal, state and local government) is best deployed to support proven strategies and bring them to scale.
- While local communities can and should invest in early childhood development, their capacity varies greatly across the state. Poorer counties are unable to provide equal services to wealthier counties absent additional non-local investment.
- Given the magnitude of resources needed to support and sustain high quality early childhood services, even the wealthiest communities are unlikely to be able to self-fund more than a fraction of the costs of providing these experiences to their children. Sustainable sources of non-local funding will be essential in ensuring community success.
- In this time of greater competition for resources, it is more important than ever that both public and private investments demand results based on outcomes, backed up by the rigorous use of data and evaluation. And given the demographic shifts underway, we must pay particular attention to closing gaps in development outcomes across groups in our state.

We believe it essential to our future economic prospects that children in North Carolina get a strong start in life. Our challenge as a state is to put in place—and fund—a system of early childhood development that makes this possible for *all* children. Failure to do so will threaten the well-being of families and communities everywhere.

Blue Ribbon Commission on Local Financing Options for Early Childhood Development

Chairs

The Honorable Chad Barefoot
Senator, NC District 18
NC General Assembly

The Honorable Mandy Cohen
Secretary
NC Department of Health and Human Services

Jim Hansen
Regional President
PNC Bank

Brenda Howerton
Durham County Board of Commissioners
President of the Board
NC Association of County Commissioners

Members

Jasmine Beach-Ferrara
Board of Commissioners
Buncombe County

Pat Danahy
Chair, Board of Directors
NC Partnership for Children

Jennie Eblen
Vice President
Eblen Short Stop Stores, Inc.
Asheville, NC

Trevor Fuller
Board of Commissioners
Mecklenburg County

Dr. Laura Gerald
President
Kate B. Reynolds Charitable Trust

Jim Hoffman
Hoffman Koenig Hering PLLC
Greensboro, NC

The Honorable Craig Horn
Representative, NC District 68
NC General Assembly

Virginia Hoover
Board of Education
Rockingham County Public Schools

The Honorable Mark Johnson
State Superintendent
NC Department of Public Instruction

Page Lemel
Board of Commissioners
Transylvania County

Jessica Lowery
Executive Director
Robeson County Partnership for Children

Rhett Mabry
President
The Duke Endowment

Laura Marx
President and CEO
United Way of North Carolina

Katie Belk Morris
Chair of the Board
The Belk Foundation

Mark Richardson
Board of Commissioners
Rockingham County

Susan Schwartz
Executive Director
Cemala Foundation

Terry Stoops
Vice President for Research & Dir. of Ed. Studies
The John Locke Foundation

Steve Toler
Steve Toler, LLC
Durham, NC

Jennifer Tolle Whiteside
President and CEO
North Carolina Community Foundation

The Honorable Terry Van Duyn
Senator, NC District 49
NC General Assembly

I The Economic Importance of Early Childhood Development

Technological change is dramatically reshaping our economy. Employers today report an inability to find enough highly skilled workers, a condition likely to worsen over time. Well paying jobs increasingly demand a mix of hard and soft skills acquired through greater education and experience. One estimate is that 67% of North Carolina's jobs in 2020 will require postsecondary education¹, a level of academic achievement achieved today by only 59% of our population.²

Changing demographics compound the challenge. As with the rest of the country, our workforce is shifting towards larger numbers of minorities and other workers who grew up in lower-income households. Overall, the population percentage of racial and ethnic groups with traditionally lower educational attainment levels is expanding. Most notably, the number of Hispanic residents in our state is projected to rise from 8.3% to 10.7% of the total population between 2016 and 2037, even as the (non-Hispanic) White population shrinks from 62.8% to 57.7%.³ We must simultaneously overcome the forces producing these historical outcomes while lifting academic achievement rates for everyone.

This need is underscored by the aging of our population. As the number of senior citizens increases with the retirement of the Baby Boom generation, the relative size of the working age population is shrinking. By 2037, the number of elderly citizens (those over age 65) is estimated to rise from 15% to 21% of the state's population, while the working age population drops from 62% to 58%.⁴ We need every child to be as economically productive as possible to pay for the services these seniors are demanding.

Advances in brain science research make clear that the experiences in the first years of a child's life are foundational. Much like building a house, the basic architecture of the brain is constructed through a process that begins before birth and lasts into early

¹ Anthony Carnevale, Nicole Smith, and Jeff Strohl. *Recovery: Job Growth and Education Requirements Through 2020: State Report*. Center on Education and the Workforce. Georgetown University. 2013. https://cew.georgetown.edu/wp-content/uploads/2014/11/Recovery2020.SR_Web_.pdf

² U.S. Bureau of the Census. *American Community Survey*. 2014. This measure includes any amount of postsecondary education, including attendance that does not result in a degree. The Lumina Foundation argues that a better measure of preparedness is possession of "a college degree, workforce certificate, industry certification or other high-quality credential beyond high school." By this measure, only 45.9% of our residents ages 25-64 reached this threshold in 2015. Lumina Foundation. *A Stronger Nation: Learning Beyond High School Builds American Talent. North Carolina's Report 2017*. Accessed on January 15, 2018 at <http://strongernation.luminafoundation.org/report/2017/#state/NC>

³ Author calculations using data from the North Carolina Office of Budget and Management. Accessed January 15, 2018. <https://www.osbm.nc.gov/demog/county-projections>

⁴ *Ibid.*

adulthood. Crucially, some 80% of the brain's structure is created during the first three years of life. After a process that generates more than 1 million new neural connections *every second*, a toddler's brain starts to pare down existing connections and make them more efficient. Even as new connections are formed, existing ones are made more complex in preparation for the development of higher order skills.⁵

Driving this process is a child's interaction with her environment, especially people. The brains of children whose parents and caregivers fail to provide sufficient positive interactions will not form as expected, compromising development in terms of learning and behavior. High quality early childhood experiences lay a foundation for developing strong cognitive, emotional and social capacities that position a child for success in school.⁶

Long-term studies show that positive early childhood experiences support a virtuous cycle where students do better in school, become desirable workers, land better paying jobs, pay more in taxes and enjoy a healthier life. In short, they become productive citizens contributing to individual, family and community well-being.⁷ Children in adverse circumstances are more likely to need family support services and remedial education. Students who fail to get back on track typically get lower levels of education, hold lower paying jobs, have poorer health and generate higher demands on government services (e.g. family support, healthcare and criminal justice).

We have a "leaky" workforce development pipeline in North Carolina, one unsuited to producing the workers needed for good-paying jobs. While a record percentage of students are graduating from our high schools, only 18 percent of 11th graders in the graduating class of 2016 passed all four national college and career readiness benchmarks.⁸

⁵ Center on the Developing Child. *InBrief: The Science of Early Childhood Development*. Harvard University.

⁶ *Ibid.*

⁷ For examples, see the work by Nobel Prize winning economist James Heckman found at The Heckman Equation. <https://heckmanequation.org/> ; also Art Rolnick and Rob Grunewald. "Early Childhood Development: Economic Development with a High Public Return." The Federal Reserve Bank of Minneapolis . *The Region*, December 2003. <https://www.minneapolisfed.org/~media/files/publications/studies/earlychild/abc-part2.pdf> . There is some debate over how high the return on investment is to high quality early childhood programs today compared to programs subject to the long-term studies on which Heckman and others base their findings. For pre-kindergarten programs, Lynn Karoly argues that returns from today's programs are likely to be lower, though still substantial. Lynn Karoly, "The Costs and Benefits of Scaled-Up Pre-Kindergarten Programs" in Deborah A. Phillips et al. *Puzzling It Out: The Current State of Scientific Knowledge of Pre-Kindergarten Effects*. Brookings Institution and the Duke Center for Child and Family Policy. 2017.

⁸ The ACT. *The Condition of Career and College Readiness 2016: North Carolina Key Findings*. 2016. https://www.act.org/content/dam/act/unsecured/documents/state34_North%20Carolina_Web_Secured.pdf

The leakage begins before our traditional K-12 system gets underway and the effects accumulate. By first grade, only half of our students are reading proficiently⁹; at the start of fourth grade, only 38% are proficient. This last benchmark is correlated with later success in school and life, as students transition from learning to read to reading to learn. Those who aren't at grade level by 4th grade often struggle to keep up across the curriculum and are four times more likely to drop out of school.¹⁰

We must do better or we will not have the workforce needed to sustain good paying jobs across the state.

II The Costs and Funding of Early Childhood Development in NC

High quality early childhood development programs require substantial amounts of money. For some children, thankfully, their parents are equipped with both the knowledge and financial resources to provide them a strong start in life. But there are also large numbers of children whose parents—richer and poorer alike—lack needed information. As well, there are significant numbers of parents who need financial support.

The high cost to families of high quality support are significant. In terms of child care alone, the average annual charge for center-based care in North Carolina was \$9,254 for an infant in 2016¹¹, a significant percentage of the income of an average two-income family and an even greater percentage of the income of a one parent family.¹² The rising cost of health care, another important contributor to childhood development, is a financial challenge for many North Carolinians.

A number of communities are confronting the costs of expanding early childhood experiences at scale. Recent estimates of the per child costs to provide high quality preschool at scale in three urban counties (Buncombe, Durham, Mecklenburg) ranged from \$10,296 to \$12,000 per year. The estimated annual costs to provide subsidies to low-income families for these programs totaled \$14.5 million in Durham County, \$19

⁹ Annie E. Casey Foundation. *Early Warning! Why Reading By the End of Third Grade Matters*. 2010. <http://www.aecf.org/resources/early-warning-why-reading-by-the-end-of-third-grade-matters/>

¹⁰ Annie E. Casey Foundation. *Early Warning! Why Reading By the End of Third Grade Matters*. 2010. <http://www.aecf.org/resources/early-warning-why-reading-by-the-end-of-third-grade-matters/>

¹¹ Child Care Aware of America. *Parents and the High Cost of Child Care: 2017*. <https://usa.childcareaware.org/advocacy-public-policy/resources/research/costofcare/>

¹² The United Way of North Carolina analyses the variation in basic living expenses by county and how they compare to typical wages and other income benchmarks. Across the state, families with young children typically spend half of their budgets on housing and child care. *Self-Sufficiency Standard for North Carolina 2017*. http://www.unitedwaync.org/sites/unitedwaync.org/files/NC17_SSS-Web_013017LMA.pdf

million in Buncombe County and \$74.5 million in Mecklenburg County, figures that do not include all of the startup costs to expand existing programs.¹³

Preschool represents just one piece of a high quality early childhood development experience for children between birth and age five. Add in quality child care in earlier years, as well as programs that promote health and overall wellbeing, and local resource capacities—public and private—are quickly outstripped without state and federal funding.

As a result, early childhood development programming in North Carolina traditionally relies on a mix of federal and state funding, with local communities contributing varying (and smaller) amounts to complement these streams. Important *federal* funding streams are dedicated to child care subsidies, preschool, food assistance, special education, early intervention services for children with disabilities, and home visiting programs to promote healthy births and positive parenting (Table 1).¹⁴

13

Asheville-Buncombe Preschool Planning Collaborative. *The Key To Our Futures: Expanding Access to High-Quality Preschool in Asheville and Buncombe County*. August 2017; Durham’s Community Early Education/Preschool Task Force. *Voluntary, Universal Pre-kindergarten in Durham County: How do we get there from here?* April 2017; Mecklenburg County Early Childhood Education Executive Committee. *Creating Opportunity: An Action Plan for Early Childhood Education*. September 26, 2017.

¹⁴ The commission briefly reviewed state and federal workforce development programs as sources of early childhood development funding. The commission expressed its appreciation of and support for the use of “supportive services” funding for child care. This funding stream supports participation in workforce retraining programs, typically for expenses related to child care, transportation, and help finding and paying for housing.

Table 1: Key Federal Funding Sources for Early Childhood in North Carolina*

| Program | Federal Spending | Overview |
|--|----------------------------------|---|
| Child Care and Development Block Grant | \$219 million (FY 2017) | The primary source of federal funding for child care subsidies for low-income working families. |
| Head Start/Early Head Start | \$201 million (State FY 2018-19) | Preschool program that provides comprehensive services to support the social, emotional, physical and cognitive development of three- and four-year-old children. Early Head Start serves infants and toddlers. |
| Temporary Assistance to Needy Families (TANF) | \$301 million (State FY 2017-18) | Helps low-income families achieve economic self-sufficiency. |
| Special Supplemental Nutrition Program for Women, Infants and Children | \$195 million (FY 2017) | Supports the health of low-income pregnant, postpartum and breast-feeding women; and infants and children up to age five who are at nutritional risk. |
| IDEA Section 619 Preschool Funding (Special Education Preschool) | \$11 million (FY 2016) | Makes available special education and related services for children with disabilities aged three through five. |
| IDEA Part C Program (Early Intervention Infant-Toddler Program) | \$13 million (FY 2016) | Provides supplemental funds to support provision of early intervention services for infants and toddlers with disabilities and/or delays and their families. |
| Supplemental Nutrition Assistance Program (SNAP) | \$108 million (FY 2017) | Nutritional assistance to eligible, low-income individuals and families and provides economic benefits to communities. |

*Source of program descriptions: NC Early Childhood Foundation. *Local Funding for Early Learning: A Community Toolkit*. Spending figures from the NC Department of Health and Human Services.

State funding streams include preschool funding for at-risk 4-year olds (NC pre-k), child care subsidies for working families, and support for special needs infants and toddlers. These streams are the product of a long history of investments in promoting high quality early care and learning, efforts that often positioned North Carolina as a pioneer in establishing critical components of a statewide early childhood system. Among these initiatives, North Carolina became a national model beginning in the mid-1990s with dedicated state funding for Smart Start, a birth-to-age-five public-private partnership that

supports child development, including child care, health and family services. Collectively, these funding streams total hundreds of millions of dollars each year (Table 2). In a relative sense, early education funding—the majority of early childhood spending—represents 1.1% of the annual state budget compared to 39.1% for K-12 education and 21.4% to health and human services (the latter of which includes some early childhood spending).¹⁵

Table 2: Key State Funding Sources for Early Childhood*

| Program | State Spending | Overview |
|---|--|--|
| NC Pre-Kindergarten Program | \$147 million (State FY 2017-18) | Provides high quality educational experiences to enhance school readiness for eligible four-year-old children. |
| Smart Start – The NC Partnership for Children, Inc. | \$52 million Child Care Subsidy (State FY 2017-18) \$92 million All other early childhood services for children ages birth to five (State FY 2017-18) | A birth-to-age-five public-private partnership that supports child development, including child care, health and family service through a network of nonprofit local partnerships. |
| NC Infant-Toddler Program | \$23 million (State FY 2017-18) | Provides supports and services for families and their children, age birth to three, who have special needs. |
| Child Care Subsidy | \$53 million (State FY17-18) | Provides funds for low-income working families to afford child care. |

*Source of program descriptions: NC Early Childhood Foundation and NC Partnership for Children. Spending figures from NC Department of Health and Human Services.

To illustrate the relative importance of the different public and private flows for early childhood development, it's instructive to consider anonymized data on the revenue sources for early childhood development programs in one urban county in NC (Table 3). Collectively, total revenues approached \$200 million annually.

¹⁵NC Early Childhood Foundation. Presentation to the Blue Ribbon Commission. October 16, 2017.

Table 3: Revenues for Early Childhood Development in a NC County

| Program Area | Total Funding (percentage) | Distribution of Funding by Source (estimates) |
|--|----------------------------|---|
| Early education | \$169 million | <ul style="list-style-type: none"> ● Parent tuition (about 78% of all education revenues) ● Federal funds (19%) ● State funds (2.5%) ● Local foundations (0.5%) |
| Child wellbeing services (e.g., health, nutrition, family supports, parenting, etc.) | \$24 million | <ul style="list-style-type: none"> ● Federal funds (60%) ● Local foundations (20%) ● Local public funds (10%) ● State funds (8%) |

Clearly, early education represents the vast majority of early childhood development spending and parents pay a significant amount of that themselves. However, additional subsidies, mostly provided by federal and state funds, represent substantial outlays each year for both education and well-being services. Local public revenues, mostly for child well-being services, make up a small proportion overall, though they still total over \$2 million. This county enjoys the presence of local and regional foundations that are able and willing to provide what amounts to about double the local public contribution for wellbeing services, though far less than combined federal and state funding.

While this example illustrates the relative importance of federal and state funding, it is important to recognize that significant additional revenues would likely be needed to offer services at scale to lower income families, especially for education.

III Local Options for Financing Early Childhood Development

Currently, there is a relatively limited set of local funding sources available to local communities seeking to identify funding for early childhood development programs. As noted above, community capacity to raise funding varies widely across the state. To inform efforts to identify options, this section first outlines public and private options and opportunities that currently exist and then identifies a set of options that, with appropriate policy changes, could be created. Because early childhood development needs (and related priorities) are community specific, and a community’s ability to raise funding will vary, each local community will need to determine for itself which options are most appropriate for its context. Regardless of local financing capacity, children in all communities deserve a high quality early childhood development experience.

Options Available Now

Local communities can choose to fund their early childhood programs through a number of traditional *public* revenue streams as well as take advantage of existing opportunities to encourage *private* funding. With public resources, county governments are authorized to fund many types of early childhood development programs. Indeed, they *must* provide public schools, social services and public health services and *may* provide others—such as public housing and economic development—that could provide a basis for particular early childhood development efforts.

Local Public Options

Three *property tax* options are available now to local communities, two of which can generate additional revenues:

- Dedicate Property Tax Revenues to Early Childhood Spending: Through regular budgeting processes, counties are authorized to spend property tax revenues on purposes listed in the law. These purposes include functions like schools, social services, and others as mentioned above. As a category, “early childhood” spending is not a specifically authorized purpose under the law. A county could hold a referendum, as allowed by state law, for voters to approve the appropriation of funds to purposes not expressly listed but otherwise permitted.
- Raise Property Tax Rates: Counties are authorized to levy property taxes without restriction for public schools and social services and are subject to a \$1.50 per \$100 valuation limit for other types of spending as set out in statute. As Appendix A details, property tax rates for 2017-18 range from \$0.31 (Carteret County) to \$1.01 (Scotland County), leaving open the option to raise property tax rates to capture more revenue. That said, the ability of counties to raise funding through property taxes varies considerably. The state’s highest rates are concentrated in a swath of poorer counties in central and eastern North Carolina. Efforts to raise property tax rates would increase their tax burden and, due to lower property values in many of these counties, places important limits on the amount of additional revenues generated. For instance, a one-penny increase in the property tax (at full collection) would generate just over \$45,000 in Tyrrell County and \$80,000 in Jones County, amounts that would fund only a small number subsidized child care slots (Appendix A).¹⁶
- Revenue-Positive Revaluations: Each county is required to revalue its property at least every eight years. Currently, 54 counties do this every eight years, 35 every four and the rest between five and seven years. In counties with rising property values, revaluation offers the opportunity to increase overall property tax

¹⁶ Low revenue projections are not limited to these areas of the state. For example, Graham County (\$101,734) and Swain County (\$144,149) both would see similarly small inflows.

revenues while maintaining (or perhaps even lowering) the existing tax rate. For counties experiencing stagnant or shrinking values, this will not be an option.

Another important source of local public funding are *sales taxes*. Under current law, local governments are authorized to collect sales tax revenues for varying purposes (Table 4).

Table 4: NC Local Sales Tax Authority

| Article | Rate | Purpose | Levied By |
|----------------|-------------|---------------------------------------|------------------|
| 39 | 1 cent | General | 100 Counties |
| 40 | ½ cent | 70% General; 30% School Capital | 100 Counties |
| 42 | ½ cent | 40% General; 60% School Capital | 100 Counties |
| 43 | ¼ or ½ cent | Transit | 4 Counties* |
| 46 | ¼ cent | General | 31 Counties |

*Durham, Mecklenburg, Orange, Wake. Source: NC Association of County Commissioners

- Revenues generated by Articles 39, 40, 42 and 46 can be devoted to any of the services counties are authorized to provide, including many that fall under early childhood development. Currently, all 100 counties collect sales tax revenue under Articles 39, 40 and 42, meaning that absent an increase in sales tax rates authorized by the state legislature, this option would not raise additional revenue, just redirect existing funds.
- To date, 31 counties have gotten voter approval to levy a tax under Article 46, at least one of which (Durham) devotes a portion of this revenue to early childhood development. For the other 69 counties that have not (yet) levied this tax, an opportunity exists to raise *new* money for early childhood development.

Appendix B provides additional resources related to these revenue options. Below, we identify opportunities that, with enabling state legislation, could give local government additional flexibility with existing sales tax funds, generate new local sales tax revenue

and help local governments communicate to voters their commitment to devoting new tax revenues to early childhood development.

Local Private Options

Communities across the state have access now to a variety of sources of private capital to fund early childhood development efforts. Most common are local and statewide philanthropies¹⁷ and large corporate donors, though some communities are able to successfully draw upon national donors as well. North Carolina has a well-developed community foundation infrastructure, one that offers a vehicle for channeling private giving to local early childhood development efforts if donors choose to target their investments for that purpose.

As noted earlier, private capital flows are better suited to funding efforts to develop innovative approaches to delivering early childhood services or to augmenting public resources given the absolute amounts of money needed annually for early childhood development. As with public revenues, communities vary widely in their ability to invest in children with wealthier communities able to raise much more capital compared to the state's poorer communities.

While current levels of early childhood investments should not be confused with a community's *potential* to invest, data on existing spending—while incomplete—are consistent: more economically-distressed areas devote less to early childhood programs than wealthier ones.

- Looking beyond today's giving levels, there is an important source of new, sustainable philanthropic funding that communities everywhere can tap into for early childhood development: an unprecedented intergenerational transfer of wealth now taking place.

A 2010 NC Rural Center study estimated that some \$185 billion in assets in the state's 80 most rural counties would change hands between 2010 and 2030.¹⁸ This ranged from \$142 million in Tyrell County to over \$8 billion in Iredell County. Capturing five percent of this for local community development—including early childhood spending—would boost local endowments by \$9 billion. Even if these transfer and capture estimates proved substantially overestimated, an endowment could still yield

¹⁷ Well known examples in these categories were represented on this commission: The Duke Endowment, Kate B. Reynolds Charitable Trust, the North Carolina Community Foundation, the Community Foundation of Western North Carolina, PNC Bank and the United Way of North Carolina (representing the state's local affiliates).

¹⁸ N.C. Rural Economic Development Center. *Funding Our Rural Future: Creating vibrant communities through homegrown philanthropy*. May 2010.
https://www.energizingentrepreneurs.org/file_download/e478916a-64d8-41d4-9838-052a3fa3ac68

potential new investment in the state’s rural areas on the order of several hundred million dollars *each year*.¹⁹

North Carolina’s community development foundations are a ready-made destination for this wealth capture, but significant efforts are needed on the ground—and many communities have some catching up to do. Unlike some other areas of the country, the rural South lacks a deeply rooted, shared sense of the importance of formally investing in one’s community.²⁰ This is now beginning to change as community foundations begin to mature. A number of community foundations in other areas of the country are successfully putting time and resources into capturing these assets as part of planned giving by their communities’ elderly residents.²¹ North Carolinians, rural and urban, have a deep attachment to the places they love. Community philanthropy is increasingly a means for that attachment to endure as permanent endowment.

As the state urbanizes, and younger heirs move to cities, this is likely a one-time opportunity to capture significant amounts of local private capital for community investment, including early childhood development. Much like topsoil during the Dust Bowl days of the 1930s, these local assets are likely to leave for good, absent intentional efforts to retain them them—especially in our rural communities.

- Consistent with capturing intergenerational transfer of wealth, it is worth noting that individuals give significant amounts of charitable contributions every year across North Carolina.

Itemized contributions in the state’s 80 most rural counties totaled \$1.7 billion in 2014.²² While most are believed to be contributions to religious and educational institutions, the totals show that individuals are donating significant amounts of money every year to causes that they deem important.²³ Non-itemized contributions are harder to measure but are significant. Deepening a culture that values formally investing in community so permanent endowment grows over time will yield important and recurring new resources for early childhood purposes.

- A final source of *new and sustainable* private capital that can be devoted early childhood development in some communities is through “health legacy foundations.”

¹⁹ The impact of the 2017 “Tax Cuts and Jobs Act” passed December 22, 2017 are not yet known. Changes to the standard deduction and the estate tax may affect some charitable giving decisions.

²⁰ Jason Gray, Senior Fellow, NC Rural Center. Presentation to the Blue Ribbon Commission. November 9, 2017.

²¹ For more, see the various resources on community development philanthropy provided by the Center for Rural Entrepreneurship.

<https://www.energizingentrepreneurs.org/solutions/community-development-philanthropy/>

²² Gray presentation to the Blue Ribbon Commission. See fn. 14.

²³ *Ibid*. As noted above, the impact on giving of the increase in the standard deduction in the 2017 “Tax Cuts and Jobs Act” is not yet known.

By law, the sale and merger of nonprofit local hospitals across the state requires that a certain amount of money be set aside for public purposes. In recent years, as major hospital systems absorbed previously independent local hospitals, particularly in rural areas, new foundations emerged to steward tens of millions of dollars in newly created endowments devoted to charitable giving in local communities (See Appendix C). Available data shows annual giving ranging from just over \$100,000 to over \$5 million by each of the seven foundations established most recently.

Each foundation can choose its priorities and some, like the Reidsville Area Foundation (founded in 2001) and Impact Alamance (founded in 2013), make early childhood development an explicit giving priority. There are nine independent hospitals remaining in the state.²⁴ There will always be a host of competing demands, but should they be bought or merged, new opportunities will follow in those communities to capture important new sustainable flows of private dollars for early childhood development.

Options Requiring Policy Change

There are a large variety of public tools that might be placed in a local financing “toolkit” for early childhood development. These are broken down by type below.

Local Public Options: Sales Taxes

As described above, North Carolina law places restrictions on the use of certain local sales tax revenues. By relaxing these restrictions, additional flexibility is granted and more revenue could be made available for early childhood investments. Flexibility could be granted in a number of ways:

- Relax use restrictions (from a mix of “general” and “school capital” to all “general”) under **Article 40** (½ cent) and **Article 42** (½ cent)
- Relax use restrictions (from “transit” to “general”) under **Article 43** (¼ or ½ cent)

Another provision of the sales tax code, Article 44, provides for the redistribution of a portion of local sales tax revenues collected across the state back to local governments based on weighted percentages. Current statute limits these flows to local spending for “...economic development, public education, and community college purposes.” Relaxing these restrictions in a similar manner would provide flexibility to use these funds for early childhood development.

- Relax use restrictions (to “general”) under **Article 44**

²⁴ Lin Hollowell. The Duke Endowment. January 15, 2018. Email correspondence.

While relaxing Articles 40, 42, 44 would mean *existing* revenue flows could be repurposed, changes to Article 43 would create *new* revenue generation opportunities for the 96 counties that have not adopted this authorized sales tax.

It is important to note that the amount of revenues these changes could make available will vary substantially by community. For the state's poorest communities, the absolute amounts will be small (as low as \$51,000 for a quarter cent sales tax increase in Tyrrell County), much less, in both absolute and per capita dollars, than wealthier communities.

A final policy change that can enhance the ability of local communities to use sales taxes relates to the referendum process. Local voters must approve the levying of sales taxes under Articles 43 and 46. County commissioners on this commission noted an important structural barrier to winning voter approval—an inability by local governments to legally commit to how they would spend revenues authorized by voters. Currently, local governments can only express statements of support for how the money would be spent, leaving doubt as to whether that will actually happen after a favorable vote takes place.

- Allow local governments to be able to specify in a binding way the intended use of new revenues to be approved by referendum.

Local Public Options: Specialty taxes and tax districts

Communities across the United States are moving forward with their own strategies to fund early childhood development, many of which involve dedicated sales and property taxes for this purpose. In some cases, special tax (or service) districts have been created as vehicles to capture this revenue. Commission members recognize that there are a variety of additional public options that, with changes to existing law, could be made available at the local level in North Carolina to fund early childhood development. These include a meals tax, occupancy tax, soda tax and real estate transfer tax. Appendix B includes additional resources on efforts elsewhere to adopt these options.

IV Findings of the Blue Ribbon Commission

We believe it essential to our future economic prospects that children in North Carolina get a strong start in life. Our challenge as a state is to put in place—and fund—a system of early childhood development that makes this possible for *all* children. Failure to do so will threaten the wellbeing of families and communities everywhere.

When it comes to funding the system we need, particularly the role of local contributions, we have come to the following conclusions:

Private and Public Capital Play Complementary Roles

Public and private capital have a complementary role to play in creating and sustaining a system that offers a high quality early childhood development experience to children across the state. To be good stewards of taxpayer resources, public funds are best spent on proven approaches that deliver positive results. Private capital, particularly corporate and philanthropic giving that is statewide in focus, is better suited for more “risky” or “proof of concept” investments, such as piloting innovative programs seeking to improve early childhood development outcomes or to drive down program costs.

Given the amounts of money typically required to reach child populations at scale, private capital alone—especially local private capital—is insufficient to fund proven programs over the long term. This is reflected in current spending patterns in which public resources (federal, state, local) dwarf amounts from private sources (see Section I).

Local Capacity Varies Significantly

This commission believes that all local communities should contribute some amount of resources to their early childhood development efforts. Providing our children with the best start in life is important and all communities, regardless of wealth, need to recognize this priority through their actions, including their spending.

While all children deserve an equally strong start in life in North Carolina, there is significant variance across our state in the ability of communities to raise and devote resources to this end. This is not an urban v. rural challenge. Our state’s urban areas enjoy much larger tax bases as well as corporate and philanthropic resources, but their absolute need levels are greater given larger child populations at risk for poor early childhood outcomes. Non-urban areas have lower numbers of children but fewer economic resources and higher poverty rates, including child populations more at risk for poor quality early childhood experiences.²⁵ As a state, we must be cognizant of the uneven ability of communities on their own, rural and urban alike, to provide long term funding that leads to high quality early childhood development outcomes.

Local Capacity is Insufficient

Given the magnitude of resources needed to support and sustain high quality early childhood services, even the wealthiest communities are unlikely to be able to self-fund more than a fraction of the costs of providing these experiences to their children.

²⁵ NC Rural Health Leadership Alliance Work Group on Early Childhood. *Early Childhood in Rural North Carolina: Assessing Rural Communities on Pathways to Grade-Level Reading*. 2017. <https://foundationhli.org/wp-content/uploads/2017/12/NCRHLA-report-11.pdf>

Sizable and sustainable sources of non-local funding will be essential to ensuring community success.

Be Demanding in What We Expect of Our Investments

Regardless of funding source, this commission believes firmly that all early childhood investments should be properly stewarded. The following key principles should be followed whenever possible:

- Fund outcomes, not programs—All programs should be funded based upon the results they deliver for those participating in them, not on “output” measures like numbers of children served. Positive outcomes are more likely when programs are selected based upon evidence of prior success. Given the state’s changing demographics, it is important that outcomes include a focus on closing historical achievement gaps.
- Use data rigorously to measure programs and results—All early childhood development programs should identify specific, measurable metrics on which to monitor progress in implementation and success in meeting outcome goals. Data should be collected and shared regularly among participating entities to scrutinize progress and make any needed adjustments.
- Support accountable infrastructure and be willing to redirect funding—If specific programs are failing to deliver expected outcomes, they should be examined with an eye towards bolstering results or, failing that, a redeployment of their resources to more effective programs.
- Require shared ownership of outcomes and clarity of roles—Delivery of high quality early childhood development experiences often requires coordination among multiple entities (e.g., funders, service providers, administrative agencies, etc.). All parties should have shared ownership of outcomes and a clear understanding of their respective roles in generating those outcomes.
- Share best practices—As communities and funders experiment with innovative approaches to programs (and to their funding), they should share their experiences with others. This will advance a collective understanding of how best to provide (and fund) high-quality early childhood development experiences across communities in our state. The Smart Start network helps play this “knowledge broker” role in NC.²⁶

²⁶ North Carolina Partnership for Children. *Smart Start Annual Report for Fiscal Year 2016-17*.

Appendix A

Local Property and Sales Tax Information

| County | Property Tax Rates (2017-18) | Average Property Value (2015)* | 1 Cent Levy Equivalent (100% collection) | Quarter Cent Sales Tax (Projected Revenue) |
|------------------------|------------------------------------|---|---|---|
| TIER 1 COUNTIES | | | | |
| Alleghany | \$0.5125 | \$146,600 | \$163,713 | \$149,462 |
| Anson | \$0.8010 | \$76,900 | \$176,800 | \$300,348 |
| Ashe | \$0.4430 | \$151,500 | \$387,496 | \$489,467 |
| Beaufort | \$0.5500 | \$115,100 | \$586,726 | \$1,042,735 |
| Bertie | \$0.8300 | \$78,400 | \$127,655 | \$183,189 |
| Bladen | \$0.8200 | \$85,000 | \$263,834 | \$461,408 |
| Caldwell | \$0.6300 | \$108,100 | \$651,511 | \$1,273,203 |
| Camden | \$0.7200 | \$209,800 | \$103,564 | \$125,760 |
| Caswell | \$0.7459 | \$98,400 | \$156,450 | \$144,618 |
| Cherokee | \$0.5200 | \$142,600 | \$307,125 | \$585,214 |
| Chowan | \$0.7400 | \$135,900 | \$136,244 | \$244,551 |
| Clay | \$0.3800 | \$147,900 | \$200,388 | \$150,108 |
| Columbus | \$0.8050 | \$83,900 | \$301,654 | \$865,065 |
| Edgecombe | \$0.9500 | \$82,200 | \$306,854 | \$733,819 |
| Gates | \$0.7600 | \$144,300 | \$94,375 | \$67,807 |
| Graham | \$0.5850 | \$120,700 | \$101,734 | \$135,610 |
| Greene | \$0.7860 | \$87,700 | \$112,274 | \$140,883 |
| Halifax | \$0.7800 | \$86,600 | \$348,044 | \$1,040,845 |
| Hertford | \$0.8400 | \$83,000 | \$154,846 | \$456,548 |
| Hyde | \$0.7300 | \$90,600 | \$108,371 | \$144,230 |
| Jackson | \$0.3700 | \$171,900 | \$1,158,742 | \$907,866 |
| Jones | \$0.8400 | \$93,900 | \$80,803 | \$73,457 |
| Macon | \$0.3490 | \$165,500 | \$766,843 | \$986,691 |
| Martin | \$0.7900 | \$85,500 | \$191,653 | \$451,827 |
| McDowell | \$0.5500 | \$98,400 | \$358,285 | \$731,964 |
| Mitchell | \$0.5800 | \$141,100 | \$162,066 | \$322,732 |
| Montgomery | \$0.6200 | \$90,900 | \$293,698 | \$341,405 |
| Northampton | \$0.9200 | \$82,500 | \$199,349 | \$209,211 |
| Pasquotank | \$0.7700 | \$158,800 | \$297,170 | \$1,022,221 |
| Person | \$0.7000 | \$115,000 | \$404,000 | \$699,428 |
| Richmond | \$0.7900 | \$78,600 | \$312,619 | \$803,079 |
| Robeson | \$0.7700 | \$70,200 | \$550,000 | \$2,110,359 |
| Scotland | \$1.0100 | \$79,100 | \$208,200 | \$602,571 |
| Swain | \$0.3600 | \$126,700 | \$144,149 | \$236,368 |
| Tyrrell | \$0.8300 | \$98,800 | \$45,954 | \$49,300 |

| | | | | |
|------------------------|----------|-----------|-------------|--------------|
| Vance | \$0.8900 | \$97,900 | \$263,152 | \$930,707 |
| Warren | \$0.7600 | \$96,400 | \$268,904 | \$182,543 |
| Washington | \$0.8550 | \$82,700 | \$90,029 | \$177,609 |
| Yadkin | \$0.6600 | \$124,400 | \$252,286 | \$433,452 |
| Yancey | \$0.6000 | \$140,500 | \$265,717 | \$256,757 |
| Tier 1 Average | \$0.6986 | \$111,850 | \$277,582 | \$506,610 |
| | | | | |
| TIER 2 COUNTIES | | | | |
| Alamance | \$0.5800 | \$138,100 | \$1,278,606 | \$4,280,219 |
| Alexander | \$0.7900 | \$124,600 | \$254,220 | \$387,158 |
| Avery | \$0.5500 | \$137,100 | \$361,762 | \$469,317 |
| Burke | \$0.6950 | \$113,100 | \$638,768 | \$1,390,190 |
| Catawba | \$0.5750 | \$132,700 | \$1,578,472 | \$4,227,474 |
| Cleveland | \$0.7200 | \$104,400 | \$810,546 | \$1,766,089 |
| Craven | \$0.5394 | \$154,500 | \$990,000 | \$2,222,886 |
| Cumberland | \$0.7990 | \$129,300 | \$2,133,491 | \$8,611,961 |
| Currituck | \$0.5394 | \$229,900 | \$575,955 | \$993,972 |
| Dare | \$0.4700 | \$283,400 | \$1,290,500 | \$3,115,953 |
| Davidson | \$0.5400 | \$132,200 | \$1,334,000 | \$2,391,389 |
| Davie | \$0.7280 | \$169,300 | \$426,944 | \$704,866 |
| Duplin | \$0.6950 | \$87,900 | \$403,647 | \$823,252 |
| Franklin | \$0.8950 | \$129,500 | \$446,940 | \$722,825 |
| Gaston | \$0.8700 | \$125,100 | \$1,519,958 | \$4,183,573 |
| Granville | \$0.8800 | \$142,600 | \$429,105 | \$677,113 |
| Guilford | \$0.7305 | \$156,100 | \$4,696,773 | \$14,039,160 |
| Harnett | \$0.7500 | \$135,400 | \$788,628 | \$1,463,087 |
| Hoke | \$0.7500 | \$141,500 | \$294,319 | \$459,149 |
| Lee | \$0.7950 | \$136,900 | \$497,714 | \$1,419,329 |
| Lenoir | \$0.8350 | \$92,500 | \$412,100 | \$1,214,338 |
| Madison | \$0.5200 | \$159,900 | \$208,937 | \$198,468 |
| Nash | \$0.6700 | \$118,600 | \$710,300 | \$2,202,440 |
| Onslow | \$0.6750 | \$154,000 | \$1,345,966 | \$4,678,481 |
| Pamlico | \$0.6250 | \$150,800 | \$148,000 | \$181,868 |
| Perquimans | \$0.5700 | \$165,800 | \$177,332 | \$120,988 |
| Pitt | \$0.6960 | \$135,300 | \$1,192,319 | \$4,187,870 |
| Polk | \$0.5294 | \$190,700 | \$278,253 | \$208,713 |
| Randolph | \$0.6525 | \$120,700 | \$1,032,400 | \$2,092,288 |
| Rockingham | \$0.6960 | \$106,700 | \$702,374 | \$1,501,924 |
| Rowan | \$0.6625 | \$128,300 | \$1,170,700 | \$2,355,806 |
| Rutherford | \$0.6070 | \$106,600 | \$680,507 | \$1,183,687 |
| Sampson | \$0.8250 | \$87,600 | \$419,000 | \$933,616 |
| Stanly | \$0.6700 | \$128,200 | \$442,100 | \$1,182,693 |
| Stokes | \$0.6600 | \$117,400 | \$334,044 | \$429,622 |
| Surry | \$0.5820 | \$115,500 | \$491,600 | \$1,822,532 |
| Transylvania | \$0.5110 | \$192,000 | \$603,500 | \$643,807 |

| | | | | |
|------------------------|----------|-----------|--------------|--------------|
| Wayne | \$0.6635 | \$110,400 | \$795,001 | \$2,612,597 |
| Wilkes | \$0.6700 | \$114,800 | \$531,335 | \$1,137,536 |
| Wilson | \$0.7300 | \$116,300 | \$680,083 | \$2,071,383 |
| Tier 2 Average | \$0.6735 | \$137,893 | \$827,655 | \$2,132,741 |
| TIER 3 COUNTIES | | | | |
| Brunswick | \$0.4850 | \$182,500 | \$2,292,045 | \$3,065,043 |
| Buncombe | \$0.5390 | \$192,400 | \$2,959,047 | \$8,562,850 |
| Cabarrus | \$0.7000 | \$167,100 | \$2,000,867 | \$5,905,025 |
| Carteret | \$0.3100 | \$196,800 | \$1,448,761 | \$2,316,959 |
| Chatham | \$0.6281 | \$223,500 | \$956,058 | \$1,060,615 |
| Durham | \$0.7679 | \$183,800 | \$3,202,766 | \$10,345,149 |
| Forsyth | \$0.7235 | \$151,100 | \$3,249,413 | \$10,118,437 |
| Haywood | \$0.5850 | \$161,300 | \$737,067 | \$1,397,827 |
| Henderson | \$0.5650 | \$182,300 | \$1,307,000 | \$2,309,801 |
| Iredell | \$0.5275 | \$166,300 | \$2,128,860 | \$4,576,768 |
| Johnston | \$0.7800 | \$145,500 | \$1,560,500 | \$3,349,970 |
| Lincoln | \$0.6110 | \$153,200 | \$772,545 | \$1,345,984 |
| Mecklenburg | \$0.8157 | \$184,800 | \$11,952,300 | \$33,911,825 |
| Moore | \$0.4650 | \$199,100 | \$1,200,681 | \$2,497,693 |
| New Hanover | \$0.5700 | \$214,300 | \$3,018,742 | \$8,024,161 |
| Orange | \$0.8377 | \$272,600 | \$1,680,866 | \$2,693,036 |
| Pender | \$0.6850 | \$153,400 | \$614,762 | \$1,267,823 |
| Union | \$0.7810 | \$197,400 | \$2,340,055 | \$3,543,971 |
| Wake | \$0.6700 | \$234,000 | \$13,081,000 | \$29,751,458 |
| Watauga | \$0.3530 | \$231,700 | \$883,115 | \$1,576,582 |
| Tier 3 Average | \$0.6200 | \$189,655 | \$2,869,323 | \$6,881,049 |

*Average Property Value is the average price an individual can expect a home in the county to cost.

Source: NC Association of County Commissioners, *2017 County Map Book*.

<http://www.ncacc.org/DocumentCenter/View/3624>

Appendix B

Additional Resources on Early Childhood Financing

| Funding Streams | Resources |
|-----------------|---|
| Federal | <ul style="list-style-type: none"> • NC Early Childhood Foundation http://financingtools.buildthefoundation.org/funding-streams/ • Urban Institute https://www.urban.org/research/publication/spending-children-ages-8-and-younger |
| State (NC) | <ul style="list-style-type: none"> • NC Early Childhood Foundation http://financingtools.buildthefoundation.org/funding-streams/ |
| Local (NC) | <ul style="list-style-type: none"> • North Carolina Association of County Commissioners http://www.ncacc.org/407/County-Budget-and-Tax • NC Early Childhood Foundation http://financingtools.buildthefoundation.org/case-studies/ |
| Local (non-NC) | <ul style="list-style-type: none"> • The Forum for Youth Investment's "Children's Funding Project" http://forumfyi.org/childrens-funding-project • NC Early Childhood Foundation http://financingtools.buildthefoundation.org/case-studies/ • Brookings Institution https://www.brookings.edu/research/investing-in-the-next-generation-a-bottom-up-approach-to-creating-better-outcomes-for-children-and-youth/ |

Appendix C

Health Legacy Foundations in North Carolina* (with areas of service and focus)

| Foundation | Established# |
|---|--------------|
| <p>Cape Fear Memorial Foundation (Brunswick, Columbus, Duplin, Pender and New Hanover counties) <u>Focus:</u> health and wellness; \$2.5 million given in FY2015</p> | 1996 |
| <p>Cone Health Foundation (Greater Greensboro area) <u>Focus:</u> physical and mental health; \$4.9 million given in FY2016</p> | 1997 |
| <p>John Rex Endowment (Wake County) <u>Focus:</u> mental and physical health of children, related non-profit capacity building; \$3.8 million given in FY2015</p> | 2001 |
| <p>Reidsville Area Foundation (Rockingham County) <u>Focus:</u> health and wellness, education (including early childhood literacy and school readiness), community development, nonprofit capacity building; \$1.1 million given in FY2016</p> | 2001 |
| <p>Danville Regional Foundation (Caswell County [and the Danville area in Virginia]) <u>Focus:</u> Education, economic development, health, community development; \$5.7 million given in 2015</p> | 2005 |
| <p>Triangle North Healthcare Foundation (Triangle North area) <u>Focus:</u> health and wellness; \$200,000 given in 2016</p> | 2011 |
| <p>Impact Alamance (Alamance County) <u>Focus:</u> Getting kids ready for school, building healthier environments; \$1.98 million given in 2016</p> | 2013 |
| <p>The Foundation for a Healthy High Point (Greater High Point) <u>Focus:</u> health and wellness; \$5.4 million given in 2016</p> | 2013 |
| <p>Great Smokies Health Foundation (Graham, Jackson, Macon and Swain counties plus surrounding communities) <u>Focus:</u> health, wellness and prevention; \$110,000 given in FY2015</p> | 2014 |
| <p>Haywood Healthcare Foundation (Haywood County) <u>Focus:</u> Health and healthcare (and related education); \$112,00-\$157,000 given in 2015</p> | 2014 |

| | |
|---|------|
| Healthcare Foundation of Cleveland County (Cleveland County) <u>Focus:</u> health and wellness; \$102,000 given in 2015 | 2014 |
| Healthcare Foundation of Wilson (Wilson and surrounding area) <u>Focus:</u> health and wellness; \$3 million given since 2016 | 2014 |
| RHI Legacy Foundation (Rutherford County) <u>Focus:</u> health and wellness; \$774,000 given in 2017 | 2015 |

*List may not be complete.

#Some foundations may have precursor organizations. Date “established” recognizes current form.