FISCAL POLICY CENTER
AT VOICES FOR ILLINOIS CHILDREN

Special Report
February 2014

The Erosion of Early Childhood Investments in Illinois

Larry Joseph and David Lloyd[*]

Illinois has been a leader among states in its commitment to early childhood investments. From the late 1990s through 2009, the state made remarkable progress in expanding access to early learning opportunities and other early childhood services. But the Great Recession and the state's prolonged fiscal crisis have stalled progress and eroded gains in these investments.

The impact of recent state budget cuts on early childhood investments has varied across programs. Some programs have been protected (to different degrees) by federal funding and associated federal regulations regarding state matching funds, maintenance-of-effort requirements for state funding, and entitlements for eligible children to receive services. In other cases, these state investments are well below their peak levels.

- The Early Childhood Block Grant, which supports preschool programs as well as birth-to-three services, receives no federal funds and is not affected by federal mandates. State funding has been cut by more than 20 percent since FY 2009.

- Child care assistance for low-income working families was largely protected by federal recovery funds in FY 2010 and FY 2011. Since then, however, program eligibility has been tightened, and family copayments have increased substantially.

- The Early Intervention program is partly supported by federal funding under the Individuals with Disabilities Education Act, which provides an entitlement for all children to receive appropriate services. Overall program funding fluctuated somewhat during the recession but was higher in FY 2013 than it had been four years earlier.

- Home visiting programs offer services for at-risk families with young children and those expecting children. In the past several years, these programs have been protected by maintenance-of-effort requirements tied to new federal funding for home visiting.

[*] This report was funded by a grant from the Pritzker Family Foundation.

Additional cuts for early childhood programs were averted in the state budget for FY 2014 (which began on July 1, 2013), but the state's looming revenue collapse puts these investments in serious jeopardy. Midway through FY 2015, current income tax rates are scheduled to drop sharply. The resulting revenue losses would be greater than the revenue decline during the worst years of the Great Recession and would be especially devastating for programs not protected by federal funds or federal mandates.

Early Childhood Education: Progress and Setbacks

In 1985, the state began funding the Prekindergarten Program for Children At Risk of Academic failure. In 1988, the Early Childhood Prevention Initiative, offering coordinated services for at-risk children under age 3 and their families, was instituted. The Early Childhood Block Grant (ECBG) was established in FY 1999 to provide state funding for both prekindergarten and the Prevention Initiative.[1]

In FY 2007, the pre-K component of ECBG was expanded from at-risk children to "Preschool for All" — with the goal of eventually offering access to all children whose parents want them to enroll. First priority in awarding grants was given to programs serving primarily at-risk children — including children from low-income households, English language learners, children with developmental delays, and children in substitute care. The second funding priority was programs that primarily serve children from low- and moderate-income families — those with incomes below 400 percent of poverty level.

The Prevention Initiative is designed to provide continuous, intensive, and comprehensive child development and family support services to help build a strong foundation for learning. These services include home visiting, parent coaching, and parent-child interaction groups. The original ECBG statute stipulated that 8 percent of total funding be used for programs serving children under age 3. In 2003, the birth-to-three set-aside was increased to 11 percent. Legislation enacted in 2009 requires raising the set-aside to at least 20 percent by FY 2015.[2] In the current fiscal year, 14 percent of ECBG funding is set aside for programs serving children under age 3.

With the advent of Preschool for All, Illinois was increasingly recognized as a leader in expanding access to early childhood education. In 2008, Illinois ranked first among states in participation of 3-year-olds in state-funded preschool and 11th in participation among 4-year olds. ECBG funding more than doubled between FY 1999 and FY 2009, and participation in state-funded pre-K

---

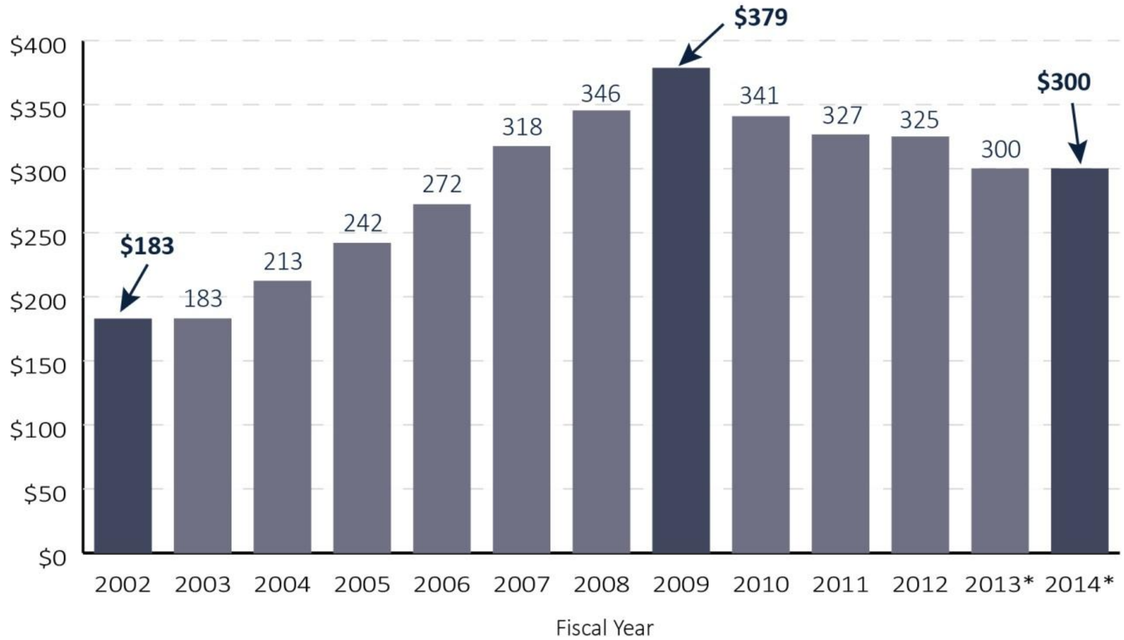
[1] The Chicago Public Schools receive 37 percent of ECBG funds. In the rest of the state, grants are distributed on a competitive, request-for-proposal basis to local school districts, regional offices of education, private preschool programs, child care centers, and other community agencies. In some instances, school districts subcontract with other eligible entities.

[2] If the ECBG appropriation in a given fiscal year is not sufficient to increase the birth-to-three set-aside without reducing grants for preschool programs, then the set-aside percentage may be held flat rather than increased (105 ILCS 5/1C-2).

EXHIBIT 1

Early Childhood Block Grant Funding (in $ millions)

ECBG funding increased steadily during the 2000s and peaked in FY 2009. Since then, the state's fiscal crisis has resulted in cuts of almost $80 million.



*Appropriation

Sources: Illinois Office of the Comptroller and Governor's Office of Management and Budget

programs peaked at more than 95,000 in FY 2009. Research has shown significant improvements in school-readiness skills among Illinois children participating in these programs.[3]

The vision of Preschool for All was based on the assumption of gradually increasing state funding to serve all children whose parents want them to participate. Since FY 2009, however, ECBG funding has been cut by more than 20 percent (Exhibit 1). In FY 2011, in response to budget cuts, the standard for programs serving primarily at-risk children, which had been more than 50 percent at-risk enrollment, was changed to 80 percent or more. In FY 2013, preschool participation dropped to about 74,000, wiping out all of the gains since the beginning of Preschool for All in FY 2007 (Exhibit 2).

The vulnerability of state funding for preschool is related to the lack of a direct connection with federal funding. The federal role in early childhood education has been most prominent in Head Start, which promotes school readiness of young children in families below poverty level. Federal grants for Head Start and Early Head Start are awarded directly to school districts and other

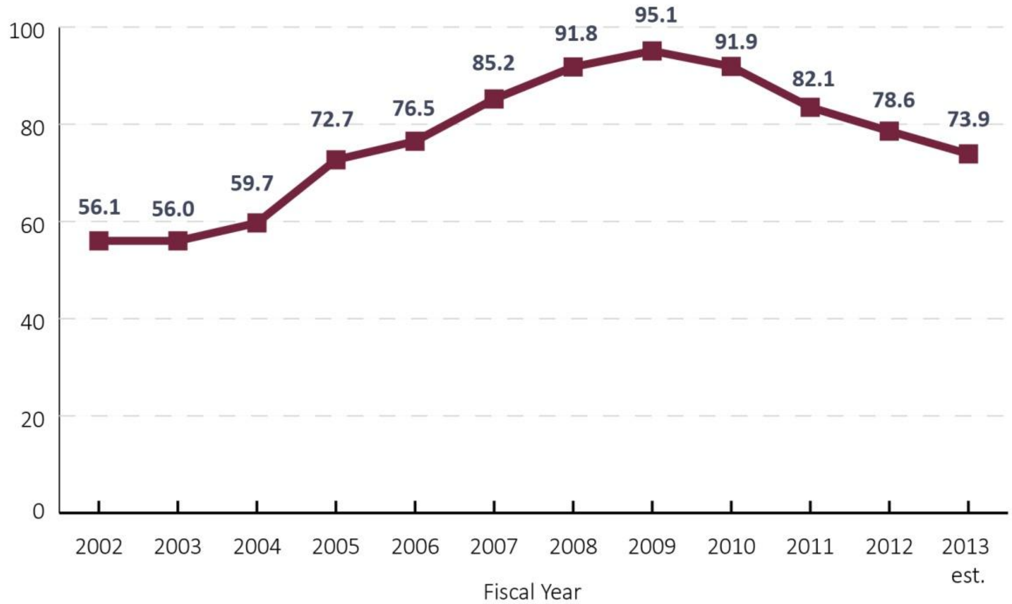
---

[3] Richard Chase, Jose Diaz, and Jennifer Valrose, "Cost Savings Analysis of School Readiness in Illinois" (Wilder Research, May 2011); Erika Gaylor et al., "Illinois Preschool for All Program Evaluation" (Erikson Institute, SRI International, and Illinois State Board of Education, March 2012).

EXHIBIT 2

Children Served in State-Funded Preschool (in 1,000s)

Since FY 2009, state funding cuts to the Early Childhood Block Grant have resulted in the loss of about 20,000 preschool slots.



Source: Illinois State Board of Education

organizations at the local level. There is a 20 percent non-federal matching requirement, which may take the form of either cash or in-kind contributions. The state role in Head Start is very limited. States receive federal collaboration grants to support and encourage partnerships between local Head Start agencies and other appropriate programs, services, and initiatives.

Child Care: Erosion of Access to Services

The Illinois Child Care Assistance Program has two primary goals: providing child care subsidies for low-income, working families to enable parents to keep their jobs, and providing access to high-quality child care settings that contribute to the healthy social, cognitive, physical and emotional development of children. In FY 2013, the program served about 164,000 children each month, down from about 195,000 in FY 2002 (Exhibit 3). Children under age 6 account for about 60 percent of enrollment and 70 percent of expenditures. About 95 percent of participating families are headed by single parents.[4]

[4] In order to be eligible for child care assistance, parents must be employed or enrolled in approved education or training programs. In March 2012, 87 percent of parents in the program were employed.

EXHIBIT 3

Child Care Assistance Program, Average Monthly Participation (in 1,000s)

Between FY 2007 and FY 2013, the average number of children participating in the Child Care Assistance Program each month declined by about 13,500.

Note: Enrollment decline in FY 2007 largely reflects implementation of a provider registration process for license-exempt family child care homes.

Source: Illinois Department of Human Services

The Child Care Assistance Program was established in 1997, concurrently with the state's implementation of the Temporary Assistance for Needy Families (TANF) program. The new Department of Human Services consolidated several existing child care programs into a single system to serve both TANF and non-TANF families. Illinois was one of a handful of states that instituted broad access to child care assistance, with eligibility based on a family's income and not its current or previous welfare status. Participating families were required to make copayments on a sliding scale based on income, family size, and number of children in care.

In the years following the enactment of TANF, income assistance caseloads in most states steadily declined. In Illinois, there was a major shift of resources from income assistance to child care assistance. Between FY 1997 and FY 2003, the number of children receiving TANF income assistance dropped by more than 80 percent, while enrollment in child care assistance more than doubled.

Child care assistance is funded through a number of different sources, including the federal Child Care and Development Fund (CCDF), the TANF Block Grant, and the Social Services Block Grant, as well as state resources. In FY 2012, 22 percent of funding came from CCDF and another 15 percent from TANF. Part of the state share represents required matching funds and maintenance-of-effort spending for CCDF.

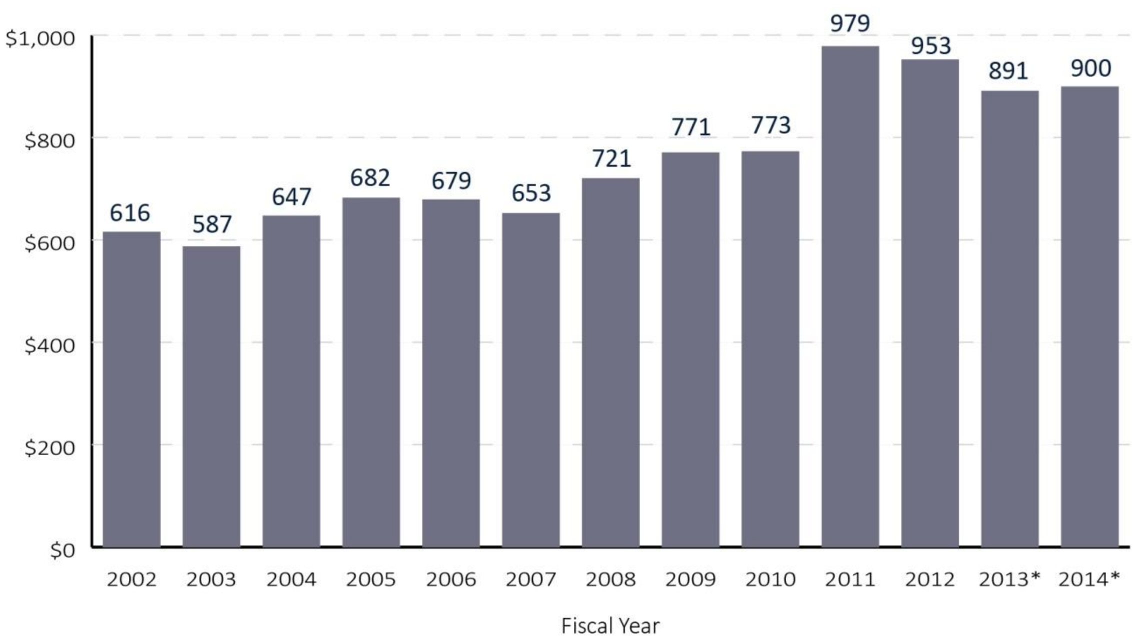
In FY 2010 and FY 2011, child care assistance was partially protected by additional federal funding under the American Recovery and Reinvestment Act (ARRA). This funding was meant to supplement but not replace state funds. Illinois used its ARRA funds ($74 million over two years) to reduce family copayments by 15 percent, extend the time allowed for job search to 90 days, and implement an infant-toddler specialist program.

Over the next two fiscal years, however, Department of Human Services funding for child care was reduced by $88 million (Exhibit 4). These budget cuts resulted in more restrictive access to services. In April 2011, the income eligibility ceiling was lowered from 200 percent of poverty level (about $37,000 for a family of three) to 185 percent of poverty level (about $34,000).[5] Required family co-payments were increased substantially in both 2011 and 2012. For a single-parent family with two children at 150 percent of poverty level (about $28,000), co-payments more than doubled, jumping from $85 to $180 per month. Average monthly participation dropped from 171,000 in FY 2012 to about 164,000 in FY 2013.

EXHIBIT 4

Child Care Services Funding (in $ millions)

State funds were supplemented by federal Recovery Act funds in FY 2010 and FY 2011. Beginning in FY 2012, decreased funding led to new eligibility restrictions and higher copayments.



*Appropriation

Sources: Illinois Office of the Comptroller and Governor's Office of Management and Budget

[5] Through FY 2003, the income eligibility limit for child care subsidies was 50 percent of state median income in 1997, adjusted for family size. Since eligibility standards were not adjusted each year for inflation, it became increasingly harder for families to qualify. The state subsequently changed to income eligibility based on federal poverty guidelines, which are adjusted for inflation. In 2008, the eligibility limit was 200 percent of poverty level.

In July 2013, the Department of Human Services announced a plan to reduce copayments in three phases between January 2014 and January 2015. The reductions would focus on families between 60 percent and 185 percent of poverty level. The estimated cost to the state would be $13.5 million. However, full implementation of these changes is very uncertain because of the dire outlook for the FY 2015 budget.

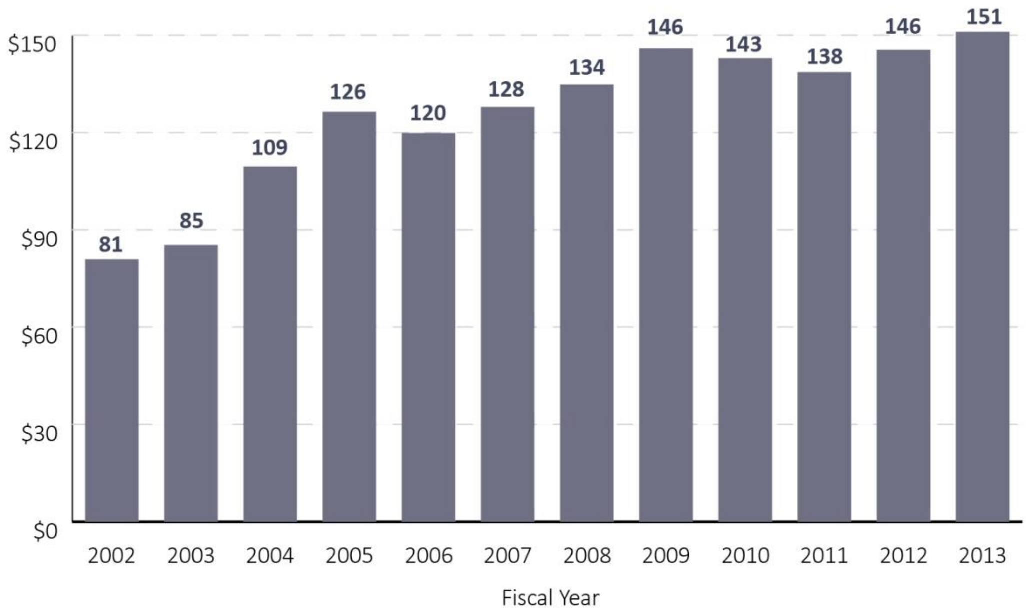
Early Intervention: Federal Entitlement and Stable Funding

The Early Intervention (EI) program provides a broad array of services and supports for families with children under age 3 who have diagnosed disabilities or developmental delays, as well as those who are at risk for developmental delays. Available EI services include physical, occupational, and speech therapies; vision and hearing services; social and emotional development and counseling services; and service coordination.

EXHIBIT 5

Early Intervention Program Funding (in $ millions)

Funding increased 80% from FY 2002 to FY 2009, but has since leveled off.



Source: Illinois Office of the Comptroller

Federal funding for state EI programs was instituted in 1986 under the Individuals with Disabilities Education Act (IDEA). Under IDEA, Early Intervention is an entitlement program. In order to receive federal funds, states must assure that EI services are available to all eligible children and their families, although states have some discretion in setting eligibility standards.

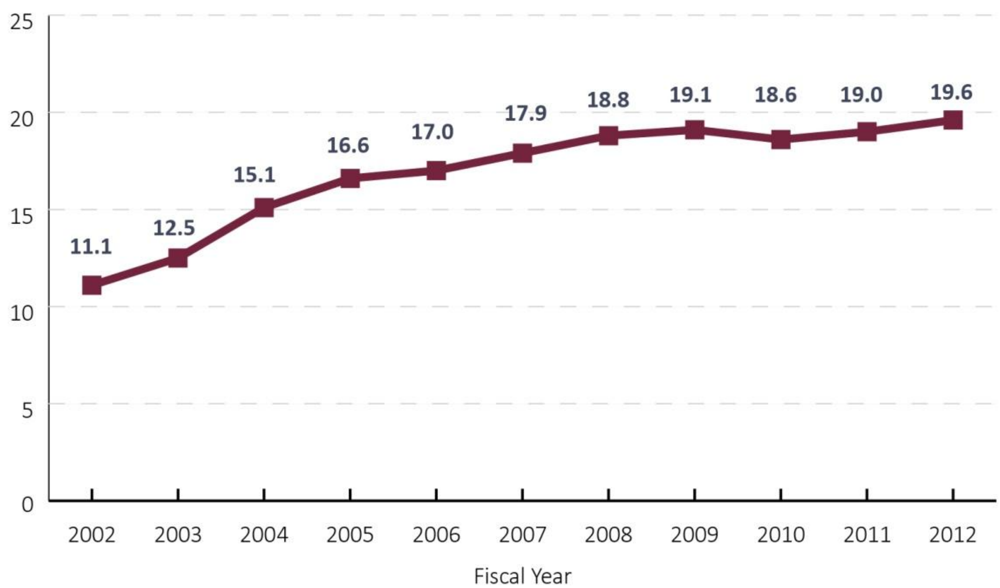
The Illinois EI program was established in 1991. In FY 1999, the program was shifted from the State Board of Education to the Department of Human Services. EI services are supported by federal Medicaid matching funds and IDEA funds, as well as by state revenue. In FY 2009, Illinois received additional IDEA funds through ARRA. From FY 2009 to FY 2011, the state also received enhanced federal Medicaid matching funds for EI.

After increasing by 80 percent between FY 2002 and FY 2009, EI funding fluctuated somewhat in subsequent years. In FY 2013, funding was $151 million, which was slightly above the level in FY 2009 (Exhibit 5). About half (53%) of funding for the Illinois EI program came from the state's General Revenue Fund, 31 percent from federal Medicaid matching funds, and 13 percent from IDEA funds. Most of the remainder came from fees paid by families. While the number of children served increased steadily through FY 2009, it has since leveled off with the lack of significant new funding (Exhibit 6).

EXHIBIT 6

Early Intervention Program, Children Served (in 1,000s)

Near-level funding since FY 2009 has resulted in a halt to the previous steady increases in the number of children served by the Early Intervention program.



Source: Illinois Office of the Comptroller, Public Accountability Reports

Home Visiting Programs: New Federal Support

Home visiting programs offer a broad range of preventive services and supports for at-risk families with young children or those expecting children. Trained professionals such as nurses and social workers provide information and support to improve maternal and child health, positive parenting skills, and children's cognitive and social-emotional development. Research

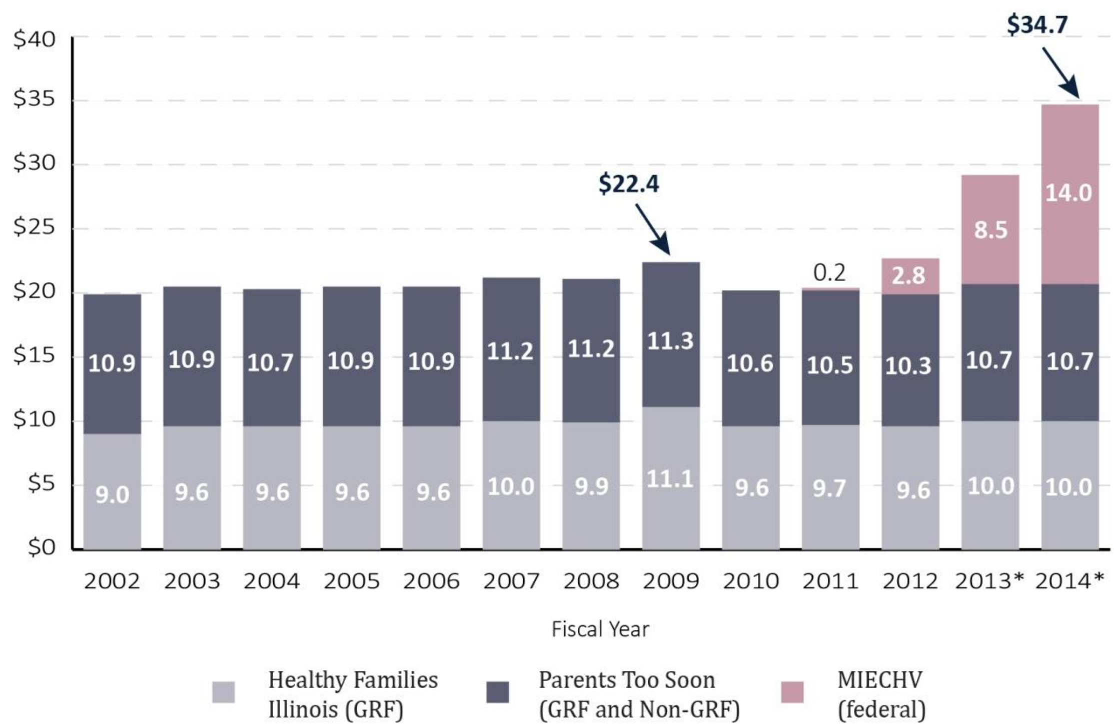
has shown that home visiting can contribute to improved birth outcomes, enhanced child cognitive development and academic success, and stronger child-parent interactions.[6]
Two home visiting programs are funded by the state through the Department of Human Services. Healthy Families Illinois is designed to promote positive parenting, enhance child health and development, and prevent child abuse and neglect. Parents Too Soon serves new and expectant teen parents in high-risk communities across the state. State funding for these two programs peaked at $22.4 million in FY 2009, was cut by 10 percent in FY 2010, and has increased slightly since then (Exhibit 7).

Until recently, a portion of General Revenue Fund (GRF) support for both home visiting programs has come from the TANF Block Grant. In federal FY 2011, $6 million in TANF funds was allocated

EXHIBIT 7

Illinois Department of Human Services, Funding for Home Visiting Programs (in $ millions)

New federal funding, provided under the Affordable Care Act, has allowed Illinois to significantly expand its home visiting efforts despite nearly flat state funding



*Appropriation

Note: FY 2014 appropriation for Parents Too Soon includes $1.3 million that was shifted from the Department of Human Services to the Department of Public Health

GRF = General Revenue Fund

MIECHV = Maternal, Infant, and Early Childhood Home Visiting

Sources: Illinois Office of the Comptroller; Governor's Office of Management and Budget; Dept. of Human Services

---

[6] Emilie Stoltzfus and Karen E. Lynch, "Home Visitation for Families with Young Children" (Congressional Research Service, October 23, 2009).

to Parents Too Soon and $4.2 million to Healthy Families. Parents Too Soon is also funded through a non-GRF budget line, the DHS Special Purpose Trust Fund, with the revenue coming from the federal Social Services Block Grant. In the FY 2014 budget, some of this funding was shifted to the Department of Public Health, although the home visiting services remained at DHS.

In the past several years, funding for Healthy Families Illinois and Parents Too Soon has been protected by maintenance-of-effort requirements of new federal funding through the Maternal, Infant, and Early Childhood Home Visiting program. Illinois is eligible to receive about $35 million over five years from this program, which was established under the Affordable Care Act. These federal funds must supplement, and not supplant, other funding for early childhood home visiting programs. States must maintain non-federal funding (i.e., state general funds) at the level in effect in March 2010. Current federal authorization for the program expires at the end of September 2014.

The state is using the new federal funds ($14 million in FY 2014) to expand and strengthen evidence-based home visiting initiatives in six targeted communities — the Englewood, West Englewood, and Greater Grand Crossing communities in the city of Chicago, as well as Cicero Township, Elgin, Rockford, Macon County, and Vermilion County. The federal legislation authorizing this funding sets benchmarks for outcomes such as improved maternal and newborn health; prevention of child injuries, abuse, neglect, or maltreatment; enhanced school readiness; and improvements in family economic self-sufficiency.

The Changing Federal Role

The future federal role in early childhood is very uncertain, although there have been some positive developments. Illinois has been awarded two federal Race-to-the-Top Early Learning Challenge grants. These funds ($52 million over four years) are being used to facilitate service coordination, support local collaborations focused on serving the most at-risk children, and improve the quality of early learning and development programs.

In his 2013 State of the Union Address, President Obama proposed a major expansion of federal investments in early childhood education. In November, the "Strong Start for America's Children Act," a ten-year initiative that would include federal formula grants for preschool for 4-year-old children from low-income families, was introduced in both the House and Senate. States would be able to reserve up to 15 percent of their allocations to serve infants and toddlers. In the first two years of implementation, states would have to provide matching funds equal to 10 percent of their federal grants. The matching rate would gradually increase over time, reaching 100 percent of federal funding in the eighth year. There would also be a state maintenance-of-effort requirement.

Meanwhile, however, existing federal investments are under severe pressure. The automatic budget cuts triggered by "sequestration" resulted in federal FY 2013 reductions of more than 5 percent for Head Start. Head Start programs in Illinois lost more than $14.5 million. Grants for child care, early intervention, and home visiting were also affected by sequestration in FY 2013.[7]

---

[7] "FY 2013 Enacted Budget and BCA Sequester," Federal Funds Information for States, March 2013; "The BCA in FY 2014 and Beyond," *Federal Funds Information for States*, July 3, 2013.

Fortunately, after extending FY 2013 levels of funding for the first few months of FY 2014, which began last October, Congress recently passed legislation that increased FY 2014 appropriations for many programs. Head Start, in particular, fared well, receiving an increase of more than $1 billion compared to last year. However, this reprieve may not last; sequestration is set to return in full force again starting in FY 2016, cutting non-defense discretionary programs by at least $37 billion a year through FY 2021, as compared with previous projections from the Congressional Budget Office.

Conclusion

The state's ongoing fiscal crisis has stalled progress and eroded state investments in early childhood programs. In some instances, budget cuts have been limited by federal funding and related federal mandates. Among the programs discussed here, setbacks have been most severe for preschool programs. A key reason is the absence of a direct connection between state and federal funding. Early childhood programs fared relatively well in the FY 2014 state budget, receiving level funding or small increases. Nonetheless, some of these state investments in early childhood remain well below their peak levels. Moreover, programs with relatively stable funding have not kept pace with inflation or with growing needs.

The outlook for early childhood investments in the next fiscal year is ominous. Income tax rates enacted in January 2011 are scheduled to expire at the end of December 2014, resulting in massive revenue losses beginning midway through FY 2015. If the General Assembly fails to act, Illinois would lose more than $2 billion in revenue in FY 2015 and close to $5 billion in FY 2016. The two-year decline would be greater than the loss in state revenue during the worst years of the recession (FY 2009 and FY 2010). Such huge revenue losses would require enormous cuts in nearly every part of the state budget. But programs not protected by federal funds or federal mandates — for example, the Early Childhood Block Grant — would be especially vulnerable.

ABOUT THE FISCAL POLICY CENTER

The Fiscal Policy Center at Voices for Illinois Children provides timely, credible, and accessible information and analysis on fiscal issues that affect children, families, and communities in Illinois. The FPC is a member of the State Fiscal Analysis Initiative (SFAI), a network of nonprofit organizations in more than 40 states. SFAI is coordinated by the Center on Budget and Policy Priorities, a Washington, D.C.-based research organization and strategic policy institute that works on a range of federal and state issues.

The Fiscal Policy Center is funded by the Annie E. Casey Foundation, the Center on Budget and Policy Priorities, the Chicago Community Trust, and the Ford Foundation. This report was supported by a grant from the Pritzker Family Foundation. We thank our funders for their support but acknowledge that the findings and conclusions presented in this report do not necessarily reflect the views of these organizations.

For additional information, please contact Larry Joseph, Director of the Fiscal Policy Center, at ljoseph@voices4kids.org or 312-516-5556.

VOICES FOR ILLINOIS CHILDREN

208 S. LaSalle St., Suite 1490 • Chicago, IL 60604-1120

Phone: 312-456-0600 • Email: info@voices4kids.org • Web: www.voices4kids.org

B U I L D I N G B E T T E R L I V E S