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ABSTRACT

This catalog provides information on innovative financing strategies, primarily state and community strategies, being used successfully to fund child care in the United States. Five sections of the manual are devoted to profiles of programs using the following categories of strategies: (1) generating new public revenue for child care, including tax strategies, tax credits, deductions, and exemptions, and fees and lotteries; (2) allocating existing public general revenue for child care; (3) financing child care in the private sector, such as employer- and union-supported care and community child care initiatives; (4) financing child care through public-private partnerships; and (5) financing child care facilities, including using grants, bonds, and loans. The catalog's introduction describes characteristics of successful financing strategies for raising money for child care. Each profile describes a specific financing strategy, when it was initiated, the amount of funding it generates, how funds are distributed, what services are funded, and who is eligible for them. Additional locations using similar financing strategies are listed with contact information. Also in each profile are opinions and analysis of the pros and cons of each strategy plus lessons learned from the participants' perspective. Historical, political, and economic factor contributing to the success of an approach are included. Four appendices describe revenue-generation methods, outline tax strategies and governmental powers, and list key national organizations in child care and family support, and members of the National Children's Facilities Network. Contains 58 references. (KB)

FINANCING CHILD CARE IN THE UNITED STATES

An Illustrative Catalog of Current Strategies

The Ewing Marion Kauffman Foundation

The Pew Charitable Trusts

FINANCING CHILD CARE IN THE UNITED STATES

An Illustrative Catalog of Current Strategies

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How to Use This Catalog

This catalog was developed to share information on innovative financing strategies that are successfully funding child care in the United States. The purpose of the catalog is to provide a better understanding of what can be done and to encourage development of other successful strategies to finance child care.

Locating Information

Several approaches are possible:

- Review the table of contents, which categorizes the profiles by the type of financing method.
- Read the introductory section preceding each cluster of profiles, which describes the financing method and summarizes the strategies profiled.
- Use the index, organized by state/city, program name and financing strategy, for reference.

Profile Description

Each profile describes a specific financing strategy, when it was initiated, the amount of funding it generates, how funds are distributed, what services are funded and who is eligible for them. Additional places using similar financing strategies are listed with contacts so that readers may follow up for more information. The "Strategic Considerations" section in each profile includes opinion and analysis of the pros and cons of each strategy plus the lessons learned from the perspective of the participants. Also, historical, political and economic factors that contributed to the success of a particular approach are included under this heading.

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INTRODUCTION

INTRODUCTION

This catalog highlights strategies currently employed in states and communities, using public, private and mixed sources of funding, to finance child care. The focus is on strategies that generate new revenue or increase the share of current revenue allocated to child care. Only strategies currently being applied or in the process of implementation are included. Examining how states and communities have found ways to fund child care broadens our understanding of potential resources, demonstrates that greater investment is not only needed but achievable and can stimulate additional planning and efforts to finance child care.

The federal government (rather than state and local government) is regarded as the major source of public revenue for child care, with the energy of many child care advocates focused on federal policy making. Most readers will be familiar with the federal Head Start program, other federal public revenue sources for child care—the Child Care and Development Block Grant, At-Risk Child Care, Transitional Child Care[1]—and the child care appropriations made by each state to match federal funds. These are significant sources of funding for child care, but they are not the only sources.

Most of the catalog is devoted to state and community strategies. The strategies fall into five broad categories:

- generating new public revenue for child care
- allocating existing public revenue for child care

What Is Child Care?

"Child care" in this context means the full range of services used by families to educate and nurture young children—services that also allow parents to work or go to school. Some would refer to this as "early care and education"; we use the term "child care" as shorthand and to match commonly used terminology.[2]

Child care has many functions in society. Good child care:

- helps children enter school ready to succeed and continue to thrive once they are there;
- provides an appropriate learning environment for all children, including those with disabilities;
- improves employee performance and productivity;
- aids economic development and growth;
- helps parents move from welfare to work;
- prevents violence.

1. Except for Head Start, these have now been consolidated into the federal Child Care and Development Fund as a result of the federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), August 1996.

2. In the introductory sections throughout this catalog, "child care" is used as an inclusive shorthand term to mean all types of education and care for children from birth through age five, and programs for school-age children before and after school and during vacations. We believe the terms "child care," "early childhood education," "child development" and "early care and education" are interchangeable. For some, "child care" implies younger children, and other terms such as "school-age program" or "latchkey program" would be used when older children are involved. In the profiles, we have used whatever terminology our informants used to describe their activities.

- financing child care in the private sector
- financing child care through public-private partnerships
- financing child care facilities

Generating new public revenue includes innovative tax and fee-based approaches to financing child care. This section includes two federal financing mechanisms because they are less well-known and understood than other federal programs. These are: (1) the federal income tax credit for child and dependent care and (2) the federal provision authorizing employer-sponsored dependent care assistance plans. Child care is also financed by allocating existing state revenue streams for child care. As the profiles illustrate, this financing strategy occurs most frequently when state policy recognizes the impact of child care in meeting welfare reform or educational goals. The third area covered, private sector financing of child care, focuses on business and labor-initiated programs that improve access to child care as well as its quality and supply. In the fourth section, the focus is on public-private partnerships in which public and private sector funds are blended to support child care. The closing section on the financing of child care facilities includes techniques to support the bricks and mortar needed for child care programs.

Following a brief overview of each strategy, profiles illustrate how the strategies evolved and were implemented. Not all the possible applications of any method are given. This catalog focuses on a few examples in each category.

The System of Child Care

An effective child care system makes good child care services possible.

- A child care system is the unique combination of services, supports and policies characteristic of a state or community.
- Services are the programs offered to children in centers and homes, by schools, community organizations, religious groups, employers, and for-profit and nonprofit agencies.
- Supports are child care resource and referral services, child care workforce preparation and continuing development programs, accreditation schemes, consumer engagement and other supports that make child care services better, more efficient and easier for parents to use.
- Policies are the actions of government, business and civic organizations that support and advance (or constrain and retard) the development of child care services and supports.

Paying for child care

Nationally, in 1993, among families who paid for child care, a family with a preschool-age child spent on average $79 per week ($4,108 per year). A median-income family earns $32,000 and spends about 11 percent of its income on child care. A family earning $15,000 spends 24 percent of its income on child care.[3] What families report spending on child care does not represent the full price of child care, because some families receive partial subsidies or scholarships. Further, the actual cost of producing child care is higher than the price charged to consumers because of in-kind donations and other contributions.[4]

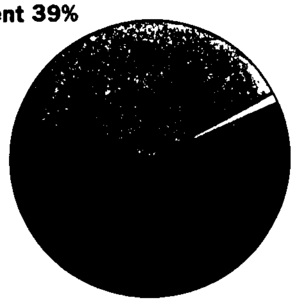
Overall, families pay the largest share—roughly 60 percent—of total annual estimated expenditures for child care in the United States. Government (federal, state and local) pays much of the balance, primarily by directly subsidizing all or part of child care tuition fees for low-income families directly through state appropriations. The government provides tax credits for other eligible families. The private sector (business and philanthropy) contributes less than 1 percent, as the chart on page 3 illustrates.

The central issue in financing child care is a tug-of-war among three competing factors: quality of services for children, affordability for parents and compensation for child care professionals.

3. U.S. Census Bureau. September 1995. *What Does It Cost to Mind Our Preschoolers?* Current Population Reports, Survey of Income and Program Participation, Fall 1993. Washington, DC: U.S. Department of Commerce, Census Bureau.

4. Cost, Quality, and Child Outcomes Study Team. 1995. *Cost, Quality and Child Outcomes in Child Care Centers.* Denver: University of Colorado.

Major revenue sources for child care and early education[5]

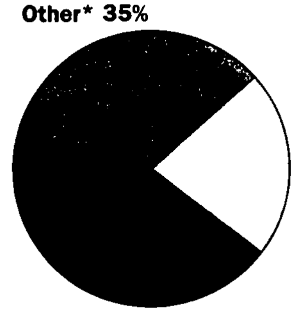


Researching the Profiles

A wide net was cast for recommendations of innovative or unusual child care financing methods that raise significant money. We called knowledgeable people in communities across the country and in national organizations, put queries on the Internet, scanned publications and searched bibliographic databases. The list of possibilities was categorized, preliminary telephone interviews were conducted, and documents were collected. Each profile was checked for accuracy by the individuals who provided the background information.

In contrast, consider the financing of higher education. Everyone knows that sending a child to college is expensive, that financial aid in various forms is available and that saving for a child's education is (or should be) a priority in the family budget. Tuition and fees at a four-year public college or university average $2,700 per year. But the tuition and fees charged to families represent only a modest portion of the actual cost of that college education, which is about $14,500 per year for a four-year public college or university. Families pay about 23 percent of the cost of a public college education—or about 8 percent of income for a median-income family. The balance of costs are paid by government or the private sector, as the chart below illustrates.

Major revenue sources for public higher education 1993-94[6]



** The "other" category includes federal and local government appropriations, research and other grants and contracts from public and private sources, and endowment income.*

Consider the differences for families when paying for child care and paying for college. Families are usually better off financially by the time their children enter college than they are when their children are young and in need of child care. The price charged to families for child care is close to the expended cost of producing child care, while the price charged to families for higher education is less

5. Stoney, L., and M. Greenberg. 1996. "The Financing of Child Care: Current and Emerging Trends." In *The Future of Children*, Vol. 6, No. 2. The estimates in the chart are based on data from this article. Most but not all of the expenditure estimates in the article were based on data for 1995.

6. General Accounting Office (August 1996). *Higher education: Tuition increasing faster than household income and public colleges' costs* (GAO/HEHS-96-154). Washington, DC: U.S. General Accounting Office.

7. U.S. Dept. of Education (1996). *Expected Family Contribution Formulas 1995-96.* Cited in: Cicarelli, A. and N. Lifton (1996). *The affordability gap: Working families and child care.* New York: Child Care, Inc.

than a quarter of the actual cost, reflecting much greater investment in higher education by government and the private sector. Families are expected to contribute much less for college than for child care—in those few states that permit a median-income family to apply for child care subsidy, such a family would be required to pay at least 15 percent of its income for child care. The U.S. Department of Education, in determining eligibility for federal financial aid, would expect the same family to pay 5 percent of its income for college costs.[7]

Solutions to the persistent child care quandary that families face will require greater investment in child care—from sources other than the families who use child care. A common theme in most proposed solutions is that child care costs should be shared among all the beneficiaries—families, employers and society (meaning the civic and public sectors at all levels)—with each contributing a "fair share" in ways that leverage and extend the total investment of resources.

Common themes

Financing strategies that are successful in raising significant sums for child care appear to share six common characteristics, described below.

1. Child care and...

Child care is frequently embedded in a larger issue or context: child development, education improvement (school-readiness), economic development or support for the adult workforce. These broader issues offer persuasive rationales for revenue generation and greater resource allocation for child care, and often include all children.

Rationales for Child Care

- Child care is one of many broadly defined children's services (e.g., San Francisco's Children's Services Plan, Florida's children's services councils and North Carolina's Smart Start)
- Child care for school-readiness is the rationale for prekindergarten programs (e.g., Texas and Florida) and for Seattle's Families and Education Levy
- Georgia's lottery-funded programs link early education and higher education.
- Child care is an economic development strategy (e.g., Travis County [Austin], Texas)
- Child care is linked to "dependent" care including school-age care, youth programs (e.g., New York City's Local 1199/Employer Child Care Fund) and elder care (e.g., the American Business Collaboration, both the federal income tax provisions)
- Child care is embedded in welfare-to-work reforms with some states shifting resources to child care (e.g., Wisconsin).

2. Politically feasible approach

Successful financing strategies grow out of a keen understanding of the legal environment and the political climate. Knowing what powers are available to which levels of government, what tax strategies can legally be used and how government actually works are essential to crafting a public-revenue strategy. Understanding what motivates employers and unions is necessary for a workplace strategy. Whether the dominant community concerns are safety and security, or ending welfare dependence, the revenue-generating strategy has to respond to those concerns and link with issues people really care about. While the approaches to child care financing are varied, a common factor is the ability to read the political winds and sail in the prevailing direction.

3. Long-term thinking and multiple approaches

Successful strategies are rooted in a plan for advancing child care that recognizes the value of incremental steps. An example of this is Massachusetts, which has instituted a series of financing approaches. The most recent is a specialized license plate that will generate a modest amount of new revenue for child care quality improvement. Not only is it important in the short term, but it establishes a line item for child care quality in the state budget, which can be increased over time.

Successful strategies are often multi-pronged: civic and business leaders in Rochester, New York, spent years studying the demand and supply and outcomes for early childhood programs, bringing in new partners, and educating wider circles of the community. Their long-term community plan is generating revenue partly through efficiencies and leveraging that they could not have predicted when they began. In Aspen, Colorado, two years were spent developing a community child care plan. When the opportunity for raising revenue for child care through a new tax was realized, the municipality was ready with a plan for how the funds would best be spent, including establishing a permanent trust fund for child care.

4. Partners and nontraditional advocates

Most of the strategies were developed by broad groups of business, government, child care professionals and advocates, whether at the community, state or national levels. Advocates and others explored with their partners, listened to new perspectives on old issues, and focused on different approaches to old problems. Civic and business leaders became strong child care advocates and powerful messengers for children. Often, the education process occurred over many years. Child care advocates frequently played a behind-the-scenes role on financing measures. Child care advocates were not always present when financial measures were presented or finalized, but their messages were.

5. Leveraging

Matching and leveraging are consistent themes that run throughout many of the strategies. Public funds are often designed to be matched. In some cases, the match comes from local private funds such as United Way, or employers (e.g., Florida's new Child Care Partnerships Act targets employers). Many of the community strategies pool funding and distribute funds through collaborative processes involving all community funders (e.g., Ames, Iowa's sales tax). T.E.A.C.H. Early Childhood® Project in North Carolina leverages funds from many sources (child care providers, government and philanthropy) and is based on principles of shared funding and mutual commitment among the contributing partners.

6. Community variation

There is a strong community theme in many strategies. These strategies recognize that all child care is local and child care conditions vary among communities. All of these strategies build in community assessment and explicitly target their funds in response to demonstrated community needs. Many also engage community residents in determining their own needs, building local capacity. Others focus on community because it is the locus of strength, innovation and commitment.

Many of the national strategies profiled here are also intentionally designed to be community-driven, responsive to unique local needs and resources. For example, the American Business Collaboration for Quality Dependent Care is national in scope but spends most of its funds in target communities on projects tailored to addressing local solutions. State government initiatives are often designed to link state- and community-level players and base decisions on community input.

Generating New Public Revenue

GENERATING NEW PUBLIC REVENUE

Federal, state and local governments generate revenue two ways—primarily through taxation and secondarily through fees. Taxes are assessed based on:

- what you own, such as property taxes;
- what you spend, which includes sales taxes; and
- what you earn, such as income taxes.

Fees are payments for services based on what you use. Fees can be charged to use a park, drive on a highway, acquire a marriage license and buy a lottery ticket. State-sponsored gambling is in essence a fee—charged for the purchase of a lottery ticket. Fees are smaller sources of revenue for government than taxes. But as tax-limitation measures are enacted across the nation, fees, in particular gambling, become attractive revenue-generation methods. Appendix 1: "Revenue-Generation Methods" (see page 115) summarizes basic information about revenue-generation methods at each level of government.

TAX STRATEGIES

Income taxes are the major source of revenue for the federal government, and a significant source of revenue for those states with an income tax. Sales taxes are the most common and lucrative way for states to generate revenue. Property taxes are the major source of revenue for local governments.

Local property taxes

Property taxes typically are levied on real estate (land and buildings) based on its assessed value. Such taxes may be levied by one or more units of local government, such as the town and/or county in which the property is located and by a local school district. One way to generate funds for child care is to increase property taxes and earmark the increase for this purpose. This is the approach used in Seattle, Washington. Another strategy is to earmark a percentage of existing local property tax dollars for children's services, which is being done in San Francisco. Both are profiled in this section.

Property taxes may also be levied by creating "special taxing districts," which are independent, usually single-purpose units of local government. These districts are legal entities separate from general-purpose local governments such as cities, towns and counties, although they may share boundaries with a local government unit. Two of these special taxing districts for children's services in Florida counties are profiled in this section.

State and local sales taxes

Sales taxes are the most common and lucrative way for states to generate revenue. Forty-five states have enacted state sales taxes. Some states levy the tax on all purchases, while others exempt certain types of goods (e.g., food for home consumption [45 states], prescription drugs [44 states], clothing [six states]).

Seventeen states permit local government units to levy additional sales taxes. A few local governments have dedicated a portion of local sales tax revenue to child care. Two of these, in Colorado and Iowa, are profiled in this section.

State income taxes

In addition to taxing income to generate revenue, states often generate revenue for specific programs through a voluntary income tax checkoff. Forty-one states currently have tax checkoffs for more than 150 separate uses. The most common uses for the checkoff are political contributions, wildlife preservation and child abuse prevention. Others include elder care, Indian children, foster care and childhood disease funds. The only state income tax checkoff for child care, recently enacted in Colorado, is profiled in this section.

Tax credits, deductions and exemptions

Individual income taxes are the primary source of revenue for the federal government. Also, 41 states tax individual income. After sales taxes, income taxes are the largest source of revenue for states. At both the state and federal levels, the total revenue raised from individual income taxes are usually about four times larger than the total generated from corporate income taxes. Various credits (against taxes owed) and deductions (from income before computing taxes owed) are allowed by both federal and state tax codes. In contrast, the major source of local revenue is from property taxes. Local governments often offer property tax abatements as a way to encourage industry to locate (or remain) in their area and/or to spur expansion of existing local businesses.

Personal income tax credits/deductions

The federal tax code allows a credit for some of the expenses of work-related child care. In fiscal year 1995, the federal credit represented an estimated $2.8 billion of forgone revenue for government and child care assistance for families. The maximum benefit an individual family can realize from the federal credit is $1,440. Although the federal child and dependent care tax credit also covers the care of adult dependents, the profile focuses on the child care aspects of the tax credit.

Twenty-five states and the District of Columbia also have child care income tax provisions—either credits (21 states and the District of Columbia) or deductions (four states). All but five of these have child care tax provisions linked to some or all of the provisions of the federal child care credit. Nine states have no personal income tax, although one of these has a refundable[1] child care credit provision (Alaska). Seventeen states levy personal income taxes but do not have child care tax provisions.

The estimated total value of forgone state tax revenue from all state child and dependent care tax provisions is between 5 percent and 10 percent of the federal tax credit total, or roughly $150 million to $300 million in 1995. The maximum benefit from a state child care tax provision ranges widely from a low of $25 in Louisiana to a high of $1,440 in Oregon and Minnesota.

Because it is especially well designed to benefit lower-income families, the state of Minnesota's income tax credit related to child care is profiled in this section. The State Income Tax Provisions for Child Care chart (see page 33) details the characteristics of each state's child care tax provisions. While all states with credits also cover the care of adult dependents, the information in the profile focuses on the child care aspects of these tax provisions.

State Dependent Care Provisions

Generally, state tax provisions allow claims for the same range of child care services as the federal credit. Any legal form of child care used so that the parent(s) can work is allowable: child care centers, nursery schools, family child care homes, nannies, relatives (nondependents over age 18) and day camps (but not overnight camps). Arkansas is the only state that structures its tax credit to recognize quality—the credit is doubled for families with three- to five-year-old children enrolled in a child care center in the Arkansas quality approval system.

1. "Refundable" means that a taxpayer who owes no taxes may claim the credit.

Personal income and employment tax benefits

The U.S. Internal Revenue Service code allows taxpayers to set aside up to $5,000 from their salaries before taxes to help cover the cost of child care, elder care or care of a disabled spouse or domestic partner, so long as their employer has established an approved dependent care assistance plan (DCAP). Any employer—public or private, proprietary or nonprofit—may establish a DCAP. Under a DCAP, the employee's pay is reduced by the amount designated by the employee, and these funds are set aside in a special account to pay dependent care expenses. The employee does not pay income or Social Security taxes on these funds. The employer also saves its share of Social Security taxes on funds placed in a DCAP. (In some states, these tax savings apply to state income taxes as well.) The state of New York's DCAP is profiled as an example of structuring DCAP policies and procedures to help low- and moderate-income workers take advantage of this tax benefit.

Corporate tax provisions for employers are another approach to supporting child care. At least 14 states have established some form of an employer tax credit, which typically allows an employer to claim a corporate tax credit of up to 50 percent for the cost of an employee child care benefit. Of course, employers may still deduct expenditures for child care programs from their corporate income as reasonable and necessary business expenses before taxes are calculated. While many states have enacted employer tax credits, they have not been extensively claimed. Rather than profiling a credit limited to employers, a Colorado tax credit that applies to any taxpayer—an individual or a business—has been included. While this tax credit is currently limited to enterprise zones, efforts are under way to expand it statewide.

Property tax exemptions

States may permit localities to offer incentives through property tax reduction to attract business. A local property tax abatement in Texas includes a child care provision and is profiled in this section. Child care is viewed in this context as a necessary part of a community's economic development strategy. The tax abatement strategy approaches child care costs as part of the overall economic incentive package.

FEES AND LOTTERIES

Federal, state and local governments generate revenue principally through taxation, but also in other ways. Fees are payments requested for services, such as admission to a park, tuition at the state university, a lottery ticket and tolls on a bridge. Payment of fees is somewhat voluntary on the citizen's part, as distinguished from taxes, which are compulsory.

Fees

There are three main categories of fees: impact, service and enterprise. Impact fees anticipate the need for government services (e.g., roads, water, schools) that will result from actions by the private sector that will cause population growth, and are intended to offset their costs. Service fees shift the cost (or part of the cost) from government to the user of a public service (e.g., mortgage/deed records, garbage collection). Enterprise fees are generated from a self-supporting enterprise created by government (e.g., a municipal golf course, a state lottery, a national park) for which fees can be charged. The profits generated by the enterprise can be used for other government expenses.

Fees are typically charged to cover all or part of the cost of providing a service, such as producing birth certificates or granting licenses to practice an occupation. Fees may be charged for the use of a public facility, such as a park or swimming pool, or for a particular public service, such as garbage collection or water. Charging fees for child care licensing is becoming common. Revenue from these fees may be used to help offset the cost of licensing or, in the Virginia profile included in this section, to generate revenue for other child care quality improvement activities. Fees may be generated by one enterprise and used to fund another, unrelated activity. Massachusetts will use revenue generated from vehicle license plate fees to support a fund for child care improvement. This strategy is profiled in this section of the catalog.

Uses of Lottery Fund

In 1993, states realized total profits of $9 billion from total lottery ticket sales of $25.2 billion. On average, 36 percent of lottery sales is transferred to government as profit, 14 percent is used to cover operating expenses and commissions, and 50 percent is used to pay prizes.

Twelve states deposit lottery profits in the general fund. Twenty-four states "earmark" lottery profits for a specific purpose, including: education (California, Florida, Idaho, Illinois, Massachusetts, Michigan, Montana, New Hampshire, New Jersey, New York, Ohio and West Virginia); state building funds (Colorado, Idaho, Kansas, Maryland and South Dakota); economic development (Arizona, Kansas and Oregon); parks and natural resources (Colorado, Minnesota and West Virginia); as well as local transportation, law enforcement, senior citizen services and property tax relief.

Lotteries

Lotteries are an increasingly popular way for states to "fund" education—12 states have lotteries whose stated purpose is funding education. State-sanctioned gambling appeals to public policy makers as a less painful alternative for generating revenue than direct taxation. Earmarking lottery profits does not guarantee, however, that these funds will be used to increase or improve services. In many cases, earmarked lottery profits are used to replace general fund dollars that are reallocated to other programs.[2] Two states that use lottery funds to support their prekindergarten programs—Georgia and Florida—are profiled in this section.

2. National Conference of State Legislatures *Legisbrief.* Vol. 3, No. 25, June/July 1995.

LOCAL PROPERTY TAXES

A significant source of revenue for local government is property taxes. Property taxes typically are levied on real estate (land and buildings) based on its assessed value. Such taxes may be levied by one or more units of local government, such as the town and/or county in which the property is located and by a local school district. One way to generate funds for child care is to increase property taxes and earmark the increase for this purpose. This is the approach used in Seattle, Washington (see page 16). Another strategy is to earmark a percentage of existing local property tax dollars for children's services, which is being done in San Francisco (see page 18).

Property taxes may be levied by "special taxing districts," which are independent, usually single-purpose units of local government. These districts are legal entities separate from general-purpose local governments such as cities, towns and counties, although they may share boundaries with a local government unit. Special districts are fiscally and administratively independent of local government. Two of these special taxing districts for children's services in Florida counties are profiled below.

LOCAL PROPERTY TAXES

Children's Services Special Taxing Districts (Florida)

The specific examples profiled are the Children's Board of Hillsborough County, where Tampa and its surrounding communities are located, and the Children's Services Council of Palm Beach County. Hillsborough has a total population of 894,000; Palm Beach County has a total population of 961,000.

Description

By Florida state statute, a children's services district may be created by a county. It must be officially created by action of the county government (board of county commissioners), have boundaries coterminous with the county's and have a governing board of 10 members. Five are permanent members defined in the statute: the superintendent of schools, one local school board member, the district administrator of the local Department of Health and Rehabilitative Services (the state's social service agency), a juvenile court judge and one member of the board of county commissioners. The other five board members are appointed by the governor for four-year terms. In Florida counties, a district board is called a children's board, a children's services council (CSC) or a juvenile welfare board.[1]

If the district board is to raise revenue through taxation, the board of county commissioners must put before the voters a referendum authorizing the district to collect property tax not to exceed 50 cents per $1,000 of assessed valuation. If taxing authority is granted by majority vote in the referendum, the district must prepare an annual budget that includes the millage rate needed to raise the budgeted revenue. This budget is submitted to the board of county commissioners each year by July 1. The Florida statute specifically states that the county board (or any other local authority) may not modify the district board's submitted budget. The law also provides that after one year of operation of the board, the county may choose to fund the children's services budget from county revenue.

According to a 1995 report, 25 of Florida's 67 counties have established district boards. Nine of

1. Because such a governing board is commonly referred to as a children's services council (CSC), these profiles often refer to CSCs.

these are independent and unfunded entities; 10 are county-funded entities; and six are independent boards with taxing authority. The six with taxing authority are the counties of Hillsborough, Martin, Okeechobee, Palm Beach, Pinellas and St. Lucie.

When Established

At the urging of advocates in Pinellas County, the Florida Legislature passed a local bill in 1945 allowing that county to establish a special district for children called a "juvenile welfare board" and to levy a property tax subject to referendum. In 1946, the voters of Pinellas County approved (by an 80-20 margin) both the board and its taxing authority. In 1990, county voters approved raising the district's maximum millage rate from 50 cents to $1 per $1,000 of assessed valuation.

In the 1980s, advocates in Palm Beach County resolved to try to establish in their county a special independent taxing district for children. With help from advocates across the state, they were able, in 1986, to have the Florida Legislature pass the Juvenile Welfare Services Act (with only one dissenting vote). Effective October 1, 1986, the law allowed any county to create a special district for children's services with a governing board and the authority to levy taxes. On November 4, 1986, the voters of Palm Beach County approved the children's services council taxing authority by a 70-30 margin. Two other counties attempted to establish districts with taxing authority that year and failed (Polk and Sarasota).

The Children's Board of Hillsborough County and the Children's Services Council of Martin County were established and granted taxing authority by county referendum in 1988. The Children's Services Councils in St. Lucie and Okeechobee counties were established with taxing authority in 1990.

Amount Generated Annually

In the 1994-95 fiscal year, across the six independent funded children's services councils, close to $63 million was raised, of which just over 70 percent was spent on children's direct service programs. About one-quarter of the children's programs funded are child care related. The balance of funding is invested in training for community residents and service providers, community outreach functions and council administration.

Each county sets its millage rate annually within statutory limits—50 cents per $1,000 of assessed property value for all but Pinellas, which is $1. None of the six counties is presently taxing at its maximum millage rate. In 1994-95, the range among the five with 50-cent limits was from .1974 (St. Lucie) to .421 (Hillsborough). The average was .2855 among these five counties. The millage rate was .7822 in Pinellas County.

Hillsborough. In 1995-96, the Children's Board of Hillsborough County generated $12.3 million on a millage of .421 per $1,000. Home owners with a $75,000 home (the average assessed value of a home in Hillsborough County) paid $21.05 for children's services. Of the $12.3 million total, $9.6 million (78 percent) is allocated to children's services, about 30 percent of which is child care related.

Palm Beach. In 1995-96, the Children's Services Council of Palm Beach County generated $21.1 million on a millage rate of .373 per $1,000. Home owners with a $125,000 home (the average assessed value of a home in Palm Beach County) paid $37.30 for children's services. Of the $21.1 million total, $17.5 million (83 percent) is allocated to children's services, about 19 percent of which is child care related.

Services Funded

The Florida statute authorizing juvenile welfare services specifies broad areas related to juveniles and to the general welfare of the county: mental health, direct care and any services operated for the benefit of juveniles (except those under the exclusive jurisdiction of the public school system). The statute also specifies that boards can collect and use data and consult with other agencies dedicated to the welfare of juveniles to prevent overlapping services.

Each CSC identifies community issues within its county and promotes and develops programs in response. In the 1995 CSC agency survey, CSCs listed a wide range of issues in which they were involved, including school-readiness, neighborhood development, prenatal care, early intervention, youth development and foster care review. In the same survey, CSCs identified imminent challenges, including developing data management systems, coordination of services and neighborhood initiatives.

Child care is funded by each of the boards in differing amounts, averaging about one-quarter of total children's services expenditures across all funded CSCs. The funding is directed toward two purposes—improving the quality of child care and reducing the number of children on the waiting list for subsidized child care.

Hillsborough. The Children's Board of Hillsborough County (CBHC) spends about 30 percent of its program funds on child care, supporting both quality improvement and subsidies. Quality improvement includes accreditation support and child development associate (CDA) training ($250,000) and support and training for family child care providers ($180,000). Subsidies are funded through various methods: an equal financial partnership with United Way ($40,000 each) to provide subsidies for day care and summer day camp for children from low-income families, and a similar grant to the YMCA ($35,000). Current-year and prior funding for child care programs are awarded to agencies through a competitive application process. Grants awarded may continue for up to three years.

In addition, continuing and one-time grants have been provided to child care centers to match state or federal funds, offer antiviolence programs, provide child care to children who do not qualify for other subsidy programs, offer additional services to children with special needs, obtain accreditation, and make renovations and physical improvements. Currently, the Children's Board is working in partnership with community agencies and funders to plan a community-wide child care subsidy program.

Palm Beach. The Children's Services Council of Palm Beach County has funded quality improvements and child care subsidies, and it has provided match for federal funds for both child care and Head Start. In 1995-96, the CSC allocated $2.274 million for child care for children under five. In addition to direct grants to agencies, this sum included $340,000 used to match federal funds and $243,000 to create the Child Care Investment Fund to reduce the numbers of eligible families waiting for subsidized child care in the county. The investment fund is a pool for contributions generated by the United Way's community challenge for child care, local businesses and the local Health and Rehabilitative Services office. In addition, the CSC allocated $1.81 million for out-of-school activities for school-age children (i.e., "latchkey" programs or school-age child care).

How Funds Distributed

Each Children's Services Council must prepare an annual budget for submission to the county board of commissioners by July 1 each year. All the CSCs conduct a community needs assessment with annual updates, which are used to set priorities. Each CSC uses different methods to determine spending priorities and funding methods. All fund both agencies and discrete programs within agencies.

Hillsborough. The Children's Board of Hillsborough County (CBHC) conducts an annual community needs assessment, which is the foundation of its spending priorities. This year, the CBHC moved to an outcome-focused method of resource allocation with four key result areas: 1) promoting resilient families, 2) promoting resilient systems of support, 3) promoting a social issues response capacity and 4) promoting meaningful outcomes and accountability.

The CBHC's efforts are organized around the result areas and aimed at achieving four priority outcomes focused on children birth through age 12: 1) healthy births (prenatal through infancy), 2) school-readiness (preschool), 3) school success (school-age) and 4) optimal development (all stages of childhood).

Within this framework, the CBHC (with other community funding partners such as United Way, the county, the community foundation and the school district) funds two kinds of work: analysis of critical issues and collaborative initiatives designed to address them. It has allocated $5 million to prior funding commitments (ongoing programs and services) and $6 million to the new key result areas, $2.5 million each for the first two and about $500,000 each for the last two. Distribution is primarily through targeted requests for proposals (RFPs) based on the work and recommendations of community partnership groups and a competitive application process.

Palm Beach. Until 1996, the Children's Services Council (CSC) of Palm Beach County organized funding allocation within 10 categorical funding priorities related directly to assessed community needs. In 1996, the board adopted a focus on prevention and early intervention to promote successful child development and strengthen families and communities. The funding focus will follow developmental stages: birth to five, six through 11 and 12 through 18, with a primary focus on children from birth through early elementary school age. The long-term desired outcome is a family-centered, neighborhood-based service delivery system.

By the 1997-98 funding cycle, the CSC's goal is to commit 45 percent of all funds to services for children birth to five and 19 percent to out-of-school activities of elementary school children ages six through 12. (The remaining funds are allocated to preventing pregnancy and HIV infection in adolescents [12 percent], strengthening families [17 percent], and building neighborhood capacity and services [7 percent].) The primary strategy for the birth-to-five age group is comprehensive services for children, building services around the core program in child care centers, family child care homes and home-based family literacy programs. Universal home visiting to families with newborns is a long-term goal. The intent of the new focus is that, rather than funding discrete services, funds will follow a child and family, and community agencies will collaborate in serving families. The transition from categorical to prevention-focused allocations is expected to take three years.

To apply for funds, community agencies respond to a request for proposals aligned in the past with the categorical service areas and requiring proof of collaboration with other community agencies. (The prevention focus will affect the RFP process for 1996-97.) CSC staff review all proposals and interview the applicants. The staff then recommend an allocation plan to the CSC board for approval.

Population Served

The CSCs can focus on all "juveniles" in a county, defined as children birth through age 18. Some counties narrow the age range somewhat. For example, Hillsborough focuses on birth through age 12, whereas Palm Beach focuses on birth through age 18 with a primary focus on children five and under. Both counties fund a range of direct child care services, quality improvement projects and efforts to make child care available to families eligible for state subsidy.

Hillsborough. The mission of the CBHC is to maximize the potential of children and families to ensure optimal development and well-being of children in Hillsborough County.

Palm Beach. The mission of the CSC is to enhance the lives of Palm Beach County children and their families, and to enable them to attain their full potential by providing a unified context within which children's needs can be identified and resolved by all members of the community.

Strategic Considerations

- One of the perceived strengths of CSCs is their focus on all children and their mandate to involve in governance the key systems in a county. CSCs are viewed as an effective way to eliminate (or at least reduce) "turfism" and as a way to use local resources efficiently. This way, the key players are all at the same table, theoretically looking at the whole child (in family and community context).
- The mandate to do community planning (community needs assessments updated annually) is an important feature. It promotes long-term thinking that goes beyond one fiscal year.
- CSCs generate a new source of local funds, which can be allocated flexibly according to community needs. This increases the initiative and responsiveness of local children's services organizations.
- The explicit focus of CSCs on prevention and early intervention is a counterbalance to the punitive and remedial approaches in many legislative initiatives to address juvenile justice and provision of human services.
- Increasingly, the CSCs are concerned with focusing their own efforts on outcomes and accountability.
- As an extension of their own efforts toward using funds most efficiently, CSCs often partner with other community funders (e.g., United Way, school districts, community foundations) in planning and in funding, which focuses all funders' behavior toward shared goals and outcomes.
- CSCs educate citizens to children's issues and create stronger constituencies for children. For example, both Hillsborough and Palm Beach publish their annual reports as a supplement to their local daily newspapers. CSCs become the hub of child advocacy in a county, broadening the constituency of advocates and concentrating efforts, thereby strengthening advocacy. As CSCs become the trusted source of information about children, they have become more powerful political forces at the state level. Some county legislative delegations essentially support what their CSC recommends regarding child and family policy.

- There is no evidence of state revenue declines related to the counties' establishing children's services taxing districts.
- Counties that succeeded in establishing CSCs and authorizing taxing used a political campaign framework for their referendum campaigns. They used respected civic leader support and peer-matrix approaches—that is, having senior citizens talk to other seniors, businesspeople campaign to other businesspeople, families with children organize other families with children.
- Campaigns that failed often used less-effective spokespeople (e.g., service providers who were viewed by the voters as self-serving since their agencies ultimately would benefit financially). Unsuccessful campaigns also did not recognize opposition forces early enough and failed to strategically address the opposition's concerns.
- Some believe the term "juvenile welfare" has negative connotations to the voting public. The term in common use now—"children's services"—conveys a positive message.
- Some believe the timing of a referendum—on a primary ballot rather than a general election ballot—can affect its passage. Primaries often have lower voter turnout, so the numbers of targeted referendum supporters voting can have a greater cumulative effect.
- The tax climate has changed significantly since the 1980s, making the passage of new taxes potentially more difficult. Rationales that link moderate spending on early prevention with later avoidance of much costlier items such as prisons may be effective arguments.

Other Sites With Similar Strategy

Other jurisdictions have allocated specific increases in property taxes to children (e.g., Seattle's Families and Education Levy, profiled on page 16), but no other special taxing districts for children are known.

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LOCAL PROPERTY TAXES

Families and Education Levy (Seattle, Washington)

Description

The Families and Education Levy raises property taxes by a fixed percentage for a period of seven years. The funds raised are split approximately equally among four specified purposes: 1) early childhood development, 2) school-based student/family services, 3) comprehensive student health services and 4) children's out-of-school activities. The city of Seattle has a population of just under 500,000 residents.

When Established

The referendum passed in November 1990 and established the special levy through 1997.

Amount Generated Annually

In 1996, approximately $2.3 million was spent on child care.

The levy alone generated just over $10 million in 1996. The Families and Education Levy set a millage rate of .23 per $1,000 of assessed property value. In the first year (1990-91), the levy generated $8.5 million. Although the levy is capped at a percentage of the property tax rate, revenue generated can increase as property values change.

Beginning in 1993, the city council adopted the Children and Youth Action Plan (CYAP), which adds an additional $1 million per year to the city budget from city general revenue. Each year, the CYAP expenditures from the preceding years are maintained in the city budget and an additional $1 million is added. The CYAP, originally a four-year commitment, was recently extended through 1998. In 1996, the combined total from both the levy and the Children and Youth Action Plan was $14 million.

Services Funded

Levy and CYAP funds are used primarily to expand and extend child care, building on services and supports that are ongoing. For example, Seattle's child care subsidy fund existed for some years before the levy, and the city has funded child care training for many years. New activities are also funded: for example, funds go to family advocates based in family support centers across the city who work directly with child care providers and parents to improve relationships, and to the Business Initiative, which is working to build partnerships among area businesses and child care programs.

Child care activities are funded within two categories, totaling $2.3 million: early childhood development and out-of-school activities. A total of $1.8 million was allocated for subsidies, training and other quality improvements in early childhood development in 1995-96. Within the out-of-school activities category, $520,000 was allocated for school-age child care.

The $1.8 million represents a variety of programs. About $450,000 was added to the city of Seattle's child care subsidy pool, which is designed to serve families who are over the income eligibility limits for state child care subsidy funds. Support and training for child care service providers (including school-age care) received $300,000. Support for the school district's preschool program (CAMPI, named for its originators, the Central Area Mothers' Preschool Initiative) totaled $650,000. Another $400,000 partially supports the school district's state prekindergarten program (ECEAP—Early Childhood Education Assistance Program) and local Head Start agencies to expand services, offer longer days and improve quality. (These funds can be used for Head Start's required local match.)

How Funds Distributed

Levy funds are administered by the city of Seattle through its various departments. No more than 5 percent of levy funds can be used for administrative expenses of the city and/or the school district. Levy (and CYAP) funds are distributed through contracts with the school district and nonprofit agencies, or by transfer to city departments (e.g., the child care subsidy is handled by the Department of Housing and Human Services, and the library administers the funds for its child development resource specialist and literacy outreach to family child care providers). An RFP (request for proposals) process is used to select providers for out-of-school activities. Agencies receiving child care subsidy funds must meet the city's quality standards to participate in the program.

A Levy Oversight Committee—including the mayor, the superintendent of schools and representatives from the city council and the community—is responsible for making budget and program recommendations, reviewing performance annually and issuing reports on the effectiveness of levy-funded programs.

Population Served

The only limitation overall is geographical—only residents of Seattle are eligible for levy-funded services. Levy funds that are added to other programs, such as the child care subsidies, ECEAP or Head Start, are then subject to the limitations of those programs. For example, in Head Start, 90 percent of the children must have family incomes below the federal poverty level. Seattle's child care subsidy program is designed to serve families who are above the eligibility limits for state-funded child care subsidies. City subsidy funds are available for families with incomes up to 80 percent of the state median income who use providers that meet the city's quality standards.

Strategic Considerations

- The Families and Education Levy emerged from Mayor Norman Rice's community education summit in the spring of 1990, which engaged more than 2,000 citizens in discussing how to improve education in the city. The summit participants recognized the relationship between the context of children's life outside of school and their school experiences. Thus, the levy proposal addressed school-readiness, health, children's out-of-school time and their families.
- The original plan for levy funds suggested an allocation of $2.2 million for child care ($1.65 million in child care/early education and $550,000 for "latchkey" programs for elementary school students). This level has been maintained over time.
- Levy funds increase the city's financial commitment to children (and child care). The levy funds are used primarily as additional funds to extend currently successful programs. New initiatives are undertaken as needed after careful consideration. Levy funds build on existing community capacity.
- Part of the revenue generated by the levy ($2.1 million) was designated to fund programs formerly funded by the school district. In the original plan, these were: $146,000 for Head Start and the state-funded prekindergarten program (ECEAP); $407,000 for the locally designed preschool (CAMPI); $231,000 for elementary guidance counselors; and $1.325 million for nursing services in schools. Shifting funds from the school district budget to the city budget could have the potential for "supplantation." However, the school district was required to redirect the amount of funds freed by the levy to a defined set of specific educational enrichment priorities that would improve classroom learning environments. How these redirected funds are used must be reported annually as part of the accountability plan for the levy. The district has used the "redirect" primarily for class-size reductions and staff development.
- In 1993, the city council approved adding an additional $1 million each year for four years (1993-96) to the city budget to increase services for children and youth. In 1996, the city council extended this commitment for another two years (through 1998). These CYAP funds have supported child care through such activities as training programs for staff of the Parks and Recreation Department's school-age programs, additional funding for a children's librarian dedicated to providing reading enrichment services in family child care programs, and hiring a child development specialist in the library to serve as a resource for all child care providers.
- The Families and Education Levy must be renewed by the voters in 1997. Planning for passage is under way with public relations and communication activities and a careful review of outcomes attributable to the levy. Those involved expect it to pass but anticipate that there may be changes in its direction, focusing more on academic achievement results.

Other Sites With Similar Strategy

The City Council of Santa Fe, New Mexico, resolved to set aside 3 percent of the city's share of state gross receipts tax revenue (about $800,000 annually) for a Children and Youth Fund.

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LOCAL PROPERTY TAXES

The Children's Services Fund: Proposition J (San Francisco, California)

Description
Through a public referendum (Proposition J), San Francisco's city charter was amended in two ways. First, a baseline of funding for children's services (a level below which funding could not fall unless there was a decrease in aggregate city appropriations) was established. Second, a percentage of local property tax dollars was set aside for children's services. The set-aside was $.0125 of every $100 of property taxes during the first year and $.025 of every $100 for the remaining nine years.

When Established
Proposition J was passed in November 1991 and will remain in effect for 10 years.

Amount Generated Annually
The baseline stands at $44.7 million. The set-aside generated $13.8 million in fiscal year 1995-96. Of the set-aside funds, 25 percent is reserved for child care, which amounted to $3.3 million to support child care and early education services in fiscal year 1995-96.

Services Funded
The set-aside funds, referred to as the Children's Fund, are allocated into four broad categories, each receiving 25 percent of available dollars: 1) child care, 2) health and social services (including prenatal services), 3) job-readiness and 4) delinquency prevention, education, libraries and recreation. The Children's Fund cannot be used for law enforcement services, the purchase of property or for any service that benefits children only incidentally or as members of a larger population including adults.

Funds from the four categories are allocated to: 1) early childhood development (targeting children birth through age five), 2) youth development (targeting children and youth ages six through 17) and 3) family support (targeting families with children of all ages). The $3.3 million in child care funds for 1995-96 was spread as follows: early childhood development got $1,785,000 for licensed care in homes, centers and schools as well as training for providers and parent education; youth development received $1,130,500 for after-school and summer activities in schools and licensed facilities; and family support, $172,000 for services with emphasis on families with children under six. With the inclusion of child care funds allocated for administration and evaluation, these amounts totaled $3.3 million.

The majority (90 percent) of the child care funds are distributed to community-based organizations through a Request for Proposals process administered by the Mayor's Office of Children, Youth and Their Families (MOCYF). The priority is child care for children under six.

How Funds Distributed
The Children's Fund is administered by the Mayor's Office of Children, Youth and Their Families. MOCYF is responsible for developing a children's services plan, issuing a request for proposals to community-based organizations, staffing a Citizen Allocation Committee to review proposals, negotiating contracts for services provided by community agencies and city departments, monitoring contracts and working with an independent organization to evaluate funded programs.

Population Served
The Children's Fund is limited to serving children and youth under the age of 18. Child care funds are targeted for two groups: children under six and children six to 18, with priority for serving children from low-income families. Families in all areas of the city are eligible.

Strategic Considerations
Amending the city charter through a public referendum (rather than having the city council pass legislation) is a costly and labor-intensive process. Thousands of signatures must be obtained just to get the referendum on the ballot. Once on the ballot, the referendum must be approved by a majority of voters. A referendum can, however, be an excellent way of organizing the citizenry around children's issues in general as well as passing a specific amendment. Coleman Advocates for Children and Youth, the lead organization in the effort to establish the Children's Fund, carefully weighed the costs and benefits of the referendum process and decided the results were worth the effort. In addition to

engaging the public around children's issues, Proposition J sought to end the annual budget battles over funds for children's services, mandate a change in public priorities, and institutionalize the protection and expansion of expenditures for children. A number of lessons may be learned from this effort, including:

- Proposition J sets aside funds for a broad array of children's services—not just child care or early education—and was therefore able to garner a broad base of support.
- The mandated baseline and set-aside makes annual budget battles unnecessary.
- The law was carefully drafted to ensure that baseline funds would not be supplanted and that the new funds for children's services would be used for new programs. Even with an established baseline, however, funds can be shifted (for example, child care funds could be shifted to child health care, since both are in the baseline).
- The 10-year "sunset" provision allows the issue to be reviewed in the future (but opens the door for another costly battle to pass a referendum) and, along with a two-year "phase-in," made the proposal seem more reasonable at the time it was initially voted on.
- Planning for effective use of the funds was not built into the proposal, and political pressure made it difficult to take the steps necessary to ensure maximum impact.
- The opposition raised concerns that Proposition J was "bad government," "ballot-box budgeting" and "special-interest politics." Opponents included the business community (which saw it as an effort to increase public spending) and, at the outset, most elected officials (because the amendment would tie their hands in terms of spending).
- In the end, passage of the referendum reinforced the notion that children are a concern to the entire city of San Francisco. Outreach constantly linked the problem (children need support) with the solution (Proposition J) and helped to increase public education on children's issues.
- The Children's Fund has helped to leverage other public and private support, including funds from national and local foundations, the San Francisco school district and the federal government.

Other Sites With Similar Strategy

Oakland, California, has a similar measure on an upcoming ballot.

In 1989, The Children's Alliance in the state of Washington attempted—but failed—to pass a ballot initiative. Lack of funds to do outreach and publicity was cited as the major reason for failure. The alliance is currently working on a "Dollar for Dollar" budget bill that seeks to create a pool of money for children's services by matching each dollar allocated to juvenile correction to prevention programs (including early childhood programs). There has been no vote on the bill yet.

The Children's Action Alliance in Tucson, Arizona, is currently working on a proposal called 1% for Kids of Tucson, which will set aside a portion of city general revenue. Unlike Proposition J (which was a referendum approved by the voters), the Tucson effort is focused on convincing the city council to pass an ordinance. (The alliance decided that a referendum was too expensive and labor-intensive.) In addition to the Tucson campaign, the alliance is considering launching a statewide initiative in 1998.

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STATE AND LOCAL SALES TAXES

Sales taxes are the most common and lucrative way for states to generate revenue. Forty-five states have enacted state sales taxes. Some levy the tax on all purchases, while others exempt certain types of goods (e.g., food for home consumption [45 states], prescription drugs [44 states], clothing [6 states]). Seventeen states permit local government units to levy additional sales taxes. A few local governments have dedicated a portion of local sales tax revenue to child care. Two of these, in Colorado and Iowa, are profiled.

STATE AND LOCAL SALES TAXES

Dedicated Sales Tax (Aspen, Colorado)

Description

In 1990, voters in the city of Aspen enacted a provision to add .45 percent to the local sales tax and dedicate this portion for the purposes of affordable housing and child care.

The affordable housing purpose also receives revenue from the local real estate transfer tax (in force through 2004) and from certain local housing impact fees. The child care purpose receives revenue only from the dedicated sales tax.

The total sales tax collected in the city of Aspen is 8.2 percent, which consists of 3.0 percent state of Colorado sales tax, 3.5 percent Pitkin County sales tax and 1.7 percent city of Aspen sales tax. Of the Aspen portion of the tax, .45 percent is for child care and affordable housing.

Aspen is located in Pitkin County, which has about 12,000 permanent residents; about half live within the city limits of Aspen.

When Established

The dedicated sales tax was established in 1990, when voters approved a referendum raising the city tax from 1.25 percent to 1.7 percent. The .45 percent tax will remain in force until June 30, 2000.

Amount Generated Annually

Actual receipts from the dedicated portion of the local sales tax for 1994 totaled $1.435 million. The Aspen city budget office projects that sales tax revenue will grow at the rate of 3 percent annually through 2000, generating $1.63 million that year from the dedicated sales tax. Each year, the city council decides how to allocate revenue from the dedicated sales tax to each purpose (child care and affordable housing) when approving the annual city budget.

In 1992, the city council acted to set aside 20 percent of annual receipts from the dedicated sales tax each year to be placed into a Child Care Trust Fund. The trust is designed to generate interest income to be used for child care projects after 2000 (when the tax expires). In 1996, the city budgeted to put $240,000 into the trust fund, which will contain $1.13 million at the close of 1996. By

2000, the trust fund is projected to have a principal balance of $2.4 million. By conservative estimates, this will generate income of $150,000 annually.

From the remaining 80 percent of dedicated sales tax receipts, the city council expends on average $200,000 for child care annually, although the amount has fluctuated from year to year. In 1994, Aspen spent $115,441 on child care. In 1995, the city budgeted to spend $351,048. In 1996, the city originally budgeted expenditures of $1.745 million on child care, but will spend less than anticipated. (The city had discussed purchasing a former public school building.) The total expenditures for 1996 will amount to $224,000.

The amount of annual revenue available for child care depends on sales tax revenue.

Services Funded

Three categories of child care are supported through the sales tax: 1) child care resource and referral services, 2) grants to nonprofit centers for improvements and 3) child care tuition assistance for low-income working families.

In 1996, Kids First, the local child care resource and referral agency, received a contribution of $47,000. The total expenditure in the 1996 budget for the other two categories (contributions to nonprofit organizations and tuition assistance for families) is $177,000.

How Funds Distributed

Kids First is a public city-funded agency that provides child care resource and referral services to the community and also administers Aspen's child care funds. The city council appoints the board of directors of Kids First. This board sets priorities for child care funding, and it makes an annual recommendation to the city council on the budget amounts for Kids First operation, child care grants and the tuition assistance program.

Grants. The board oversees the grant application process, reviews requests from nonprofit organizations and makes a recommendation to the city council for funding. In the early 1990s, many of the grant requests were for capital improvements. Now most grant requests are for operating expenses (e.g., to support teacher incentive pay, staff development) and for other nonfacility improvement strategies. Presently, nearly half of the grant funds support the infant-toddler programs at two centers to reduce the centers' parent tuition fees, making them more affordable for families.

Tuition assistance. The tuition assistance program offers partial support for child care fees to families living or working in Pitkin County (where Aspen is located). The program targets families with incomes above the cutoff for state child care subsidies. A board composed of bankers and one member of the Kids First board sets assistance levels and reviews applications.

Families can apply by May 1 each year or at three other specified times during the year. Applicants have to certify their income, work status and residence or place of work. The subsidies granted can range from $1 to $12 per day, based on a sliding scale that takes into account family size and income level. (The going rate for child care tuition in Pitkin county is $27 to $30 per day.) Assistance continues for as long a period of time as the family remains eligible.

Population Served

Any low- or moderate-income family who uses child care for work-related reasons and either lives or works in Pitkin County is eligible for the child care tuition assistance program.

Any nonprofit child care organization in the Aspen area is eligible for the child care grants program. Child care centers, associations of directors and associations of family child care providers have all received funds.

Strategic Considerations

- Affordable housing is a major community concern, given the rapidly rising cost of housing in Aspen. Having affordable housing located in Aspen (rather than in outlying areas of the county) is a major benefit to employers of lower-wage workers in the tourism industry, which dominates the area.
- The sales tax was originally proposed to address these housing concerns. During deliberations within the city council, the concept of Aspen's overall affordability for families was introduced into the discussion by a council member (also a member of the board of a child care center) who noted that housing and child care are the two largest items in a family budget. When the council member proposed adding child care to the tax proposition, there was no debate. The proposition

went to the voters to adopt a sales tax for affordable housing and child care.

- Aspen is a community that prides itself on community values—caring about its citizens and workers and striving to be a community with a healthy economy and a healthy environment. The combination of child care with affordable housing—both needs easily understood in a high-cost area like Aspen—was appealing to the community because of these values.
- Enacting sales tax legislation in an area dominated by tourism is a "Robin Hood" proposition: The voters know that the majority of the taxes will be paid by nonresidents, while the majority of benefits will go to residents. Enacting sales tax legislation may encounter opposition in lower-income communities and/or in communities without significant nonresident involvement in the local economy.
- Two factors that contributed to passage are that the tax is not permanent and that the city council retains annual decision-making power over the allocation of funds within and between the two broad purposes. Voters will get to decide whether to renew the tax for another period of time or let it "sunset." Earmarking the revenue too specifically could be perceived as undermining the role of local government.
- The sales tax proposition went to the voters on the same ballot with two extremely controversial items: approval for a major hotel development and consent to allow wider roads (i.e., a four-lane highway). These latter two items dominated the community debate and were strongly partisan issues. The sales tax proposal, by comparison, was not debated, generated only one instance of minor public opposition and appeared to be widely regarded as noncontroversial. In the only public mention of child care during the referendum campaign, an opponent of the housing tax accused the council of purposely putting the two together to assure passage "because [you know] no one will vote against babies." Ultimately, the hotel passed, the highway was defeated and the sales tax passed by a modest margin with supporters across the political spectrum.
- Aspen's dedicated sales tax will expire in 2000. Community supporters are planning to campaign for renewal, probably in 1997 so that, should the first attempt fail, there will be other chances before the tax expires.

Other Sites With Similar Strategy

Starting in 1995, a citizen group in Boulder, Colorado, spearheaded by a retired physician who had a passion for establishing a universal maternal/infant home visiting program, began to gather sufficient signatures to put on the November (1996) ballot a sales tax initiative[1] dedicated to young children. They have succeeded in placing this on the ballot. The Children's Fund initiative asks voters to approve an increase in the county sales tax of .1 percent for children two and younger. This will generate an estimated $2.4 million per year. The revenue would be allocated in several ways: 25 percent for home visiting; 25 percent to a fund to match payment for child care services for children two and younger (one-third from the fund, one-third from the parent's employer, one-third from the child's parent); 2 percent for mediation for parents who are preparing to divorce; and 5 percent to expand the supply of infant care centers. The remaining 43 percent is not designated, except for the restriction to benefit children ages two and under, and would be distributed by an appointed board of seven members.

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1. The Colorado legislature granted initiative power to voters in counties in 1994 and rescinded it by 1996.

STATE AND LOCAL SALES TAXES

Local Option Sales Tax (Ames, Iowa)

Description
In 1986, the state of Iowa created the local option tax, allowing localities to levy a 1 percent sales tax on top of the 5 percent state sales tax. Local voters must approve the levying of the tax and the specific purposes for which funds raised by it can be spent. Ames and Sioux City were the first localities to approve local option taxation. Ames' referendum proposed three broad categories: 60 percent to property tax relief, 20 percent to community betterment and 20 percent to arts and human services, which included child care. The tax is collected locally and remitted to the state, which returns it to localities within each county proportionate to their population.

Ames, Iowa, is a city of about 48,000 that is home to one of the campuses of Iowa State University. Nearly half the population of Ames are university students.

When Established
Ames passed the local option tax referendum in 1987.

Amount Generated Annually
The local option tax generates over $3.2 million annually. Each year, the 60 percent earmarked for property tax relief goes directly into the city's general fund. The 20 percent allocated to arts and human services amounts to about $640,000. The portion for human services (over $450,000 annually) is allocated among various human services programs.

In 1994-95, the city's child care expenditures were $87,976. In 1995-96, Ames' child care expenditures were $91,961. The amount of funding available is directly related to sales tax receipts.

Services Funded
Child care centers and child care resource and referral services have been funded.

How Funds Distributed
The city council approves the distribution of all its revenue, including those generated by the local option tax, through the annual city budget approval process. The funds generated by the local option tax for human services (20 percent of the total) are distributed through the city budget, but based on an allocation plan recommended each year to the city council by the county-wide Analysis of Social Services Evaluation Team (ASSET).

In Story County, the four major funders of human services (United Way of Story County, Ames City Council, Story County Board of Supervisors, and the Government of Student Bodies of the University of Iowa at Ames) pool their funds and cooperatively allocate them. (The total pool for 1995-96 was $1.4 million.) All human services funding requests from agencies in Story County are made through ASSET. The volunteer board of ASSET is an appointed body of 16 members—four representatives are selected by each of the funding partners. In addition, a representative of the county office of the state Department of Human Services sits as an advisory member of the board. United Way manages the operations of ASSET.

Community agencies make annual requests to ASSET for specific human services programs. During August and September, agencies are invited to discuss their programs with the ASSET board. In January, each is asked to make a budget presentation for its program requests. Program requests are categorized in three "panels": community at large, youth and services for the mentally/physically challenged. Child care is included in the youth category. The appropriate ASSET panel evaluates requests, taking into account the priorities of each partner funder, the cost and quality of programs, and the history and management of applicant agencies; it then prepares an allocation recommendation. The full ASSET board makes the recommendation for funding specific programs. The recommendation for funding includes a total award amount for each program, with this total apportioned among the four funders. The complete human services allocation plan is then forwarded to the partner funders. The final step is for the governing body of each partner funder to officially act to adopt (or amend) the allocation plan recommended to it by ASSET.

Population Served
All children and families who use child care services in the city of Ames are eligible to be served, regardless of income or reason for needing child care. The city council has not imposed any restrictions besides location in the city of Ames. The referendum authorizing the local option tax did not impose any restrictions on the population to be served or the

services to be funded, as long as they are within the authorized broad categories.

Strategic Considerations

- In the state of Iowa, the local option tax is part of the home rule, local control philosophy of government. Sales taxes are broad-based and generally regarded by the public as fair, so long as the percentage levied is low.
- The rationale for the 60/20/20 split that Ames proposed was based on a political judgment about how to appeal to the widest range of potential supporters among the voting constituency. Because affordable housing was a long-standing community concern, property tax relief was a primary consideration and was designated to receive the bulk of funds.
- The mayor and city council reasoned that funding broad categories (e.g., community betterment) and diverse activities (e.g., the arts) along with the familiar (e.g., human services) would generate the broadest support. Real estate interests would support tax relief; arts organizations would have a reason to get involved in a public issue; human services providers would support the referendum because it represented a potential source of new funds.
- Child care was included without discussion as one of many human services; child care concerns were not influential in shaping the tax proposal or the strategy for its passage.
- The sales tax is permanent, unless the city council proposes a referendum to repeal it.
- The allocation method for human services funding is now well-respected and considered to be fair. At first, getting the political and civic leaders to give up personal influence over funding decisions was hard. Some of the larger, more savvy and well-connected human services agencies resisted the change, too. With the establishment of ASSET and a permanent source of dedicated public funds, human services delivery and planning are working as efficiently as possible, according to political leaders.
- A potential downside may be that the 20 percent allocation would not generate sufficient funds to match needs, if human services needs were to increase rapidly.

Other Sites With Similar Strategy

None have been identified.

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STATE INCOME TAXES

States often generate revenue for programs through a voluntary income tax checkoff. Forty-one states currently have tax checkoffs for more than 150 separate uses. The most common uses for the check-off are political contributions, wildlife preservation and child abuse prevention. Others include elder care, Indian children, foster care and childhood disease funds. The only income tax checkoff for child care is profiled below.

STATE INCOME TAXES

Voluntary Income Tax Checkoff for Child Care (Colorado)

Description
Establishes a fund for quality enhancement in licensed child care programs financed through a voluntary child care checkoff on Colorado state income tax returns.

When Established
The proposal passed the state legislature in 1996, and the funds will be collected starting in the spring of 1997 for the 1996 tax year.

Amount Generated Annually
Estimates are that the checkoff will generate between $250,000 and $500,000 each year. In order to maximize contributions, a coalition from the public and private sectors to support the tax checkoff will be organized.

Services Funded
Funds generated by the checkoff will be used to support professional development activities and training for early childhood care and education practitioners, program accreditation and other investments in quality that have the potential to produce improvements in child care services on a systemic level.

How Funds Distributed
The fund will be administered by the Colorado Children's Campaign, a statewide nonprofit organization committed to improving conditions for children in Colorado. A competitive application process and an independent selection committee will be established to make decisions regarding the disbursement of funds to qualified applicants.

Population Served
Child care and early education teachers and practitioners, community-based Learning Clusters,[1] resource and referral agencies, community colleges and institutions of higher learning.

1. Colorado distributes training funds through local Learning Clusters, which are composed of early childhood practitioners and parents who come together to identify their training needs and to develop a plan to meet those needs.

Strategic Considerations

Colorado's Business Commission on Child Care Financing—which was created by Governor Roy Romer in 1995—made a series of recommendations aimed at improving the supply of high-quality, affordable child care. The tax checkoff proposal was one of the commission's recommendations. Factors to consider when exploring the feasibility of replicating this strategy in another jurisdiction include:

- Using a tax checkoff strategy to generate funds is often appealing because participation by a taxpayer is entirely voluntary. Additionally, making a contribution is very simple (the taxpayer simply places a check mark in the box), and many individuals have the opportunity to participate.
- Still, the participation rate in checkoff initiatives tends to be low (around 1 percent). Checkoff programs do not produce a consistent or reliable source of funding. The greatest support for these is usually in the earliest years, and there is often a quick drop-off.
- Even if it generates limited funds, a child care tax checkoff has the potential to give greater visibility to this issue.
- Without strong maintenance-of-effort language, funds from the voluntary checkoff could be used to supplant, rather than augment, current expenditures.

Other Sites With Similar Strategy

Colorado is currently the only state to use a checkoff for child care or early education.

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TAX CREDITS, DEDUCTIONS AND EXEMPTIONS

Individual income taxes are the primary source of revenue for the federal government. Forty-one states tax individual income. After sales taxes, income taxes are the largest source of revenue for states. At both the state and federal levels, the total revenue raised from individual income taxes are usually about four times larger than the total generated from corporate income taxes. Various credits (against taxes owed) and deductions (from income before computing taxes owed) are allowed by both federal and state tax codes. In contrast, the major source of local revenue is from property taxes. Local governments often offer property tax abatements as a way to encourage industry to locate or remain in their area and/or to spur expansion of existing local businesses. In this section, child care measures financed through credits, deductions and exemptions from income tax and property tax are profiled.

Personal income tax credits/deductions

The federal Child and Dependent Care Tax Credit allows a credit for some of the expenses of work-related child care. Twenty-five states and the District of Columbia also have child care income tax provisions—either credits (21 states and the District of Columbia) or deductions (four states). All but five have child care tax provisions linked to some or all of the provisions of the federal child care credit. Nine states have no personal income tax, although one of these has a refundable child care credit provision (Alaska). Seventeen states levy personal income taxes but do not have child care tax provisions.

Generally, state tax provisions allow claims for the same range of child care services as the federal credit. Any legal form of child care used so that the parent(s) can work is allowable: child care centers, nursery schools, family child care homes, nannies, relatives (nondependents over age 18) and day camps (but not overnight camps). Arkansas is the only state that structures its tax credit to recognize quality—the credit is doubled for families with three- to five-year-old children enrolled in accredited center-based child care.

Because it is especially well designed to benefit lower-income families, the state of Minnesota's income tax credit related to child care is profiled. The "State Income Tax Provisions for Child Care" chart (see page 33) details the characteristics of each state's child care tax provisions. While all states with credits also cover the care of adult dependents, the information below focuses on the child care aspects of these tax provisions.

Personal income and employment tax benefits

The U.S. Internal Revenue Service code allows taxpayers to set aside up to $5,000 from their salaries before taxes to help cover the cost of child care, elder care or care of a disabled spouse or domestic partner if their employer has established an approved dependent care assistance plan (DCAP). Any employer—public or private, proprietary or nonprofit—may establish a DCAP. Under a DCAP, the employee's pay is reduced by the amount designated by the employee, and these funds are set aside in a special account to pay dependent care expenses. The employee does not pay income or Social Security taxes on these funds. The employer also saves its share of Social Security taxes on funds placed in a DCAP. (In some states, these tax savings apply to state income taxes as well.) The state of New York's DCAP is profiled as an example of structuring DCAP policies and procedures to help lower-income workers take advantage of this tax benefit.

The DCAP is not a tax credit; it is a way to reduce taxable income. As a result, it provides its greatest benefits to families in the highest tax brackets. Employers can, however, take steps to make the DCAP more accessible and beneficial to low-income families. The DCAP for employees of the state of New York, profiled, is one example of this approach. Con Agra Refrigerated Foods (see the Con Agra Child Care Initiative, profiled on page 68) is another employer that has successfully used a DCAP to reduce the cost of child care for employees with low and moderate incomes.[1]

1. Parent(s) who participate in their employer's federal dependent care assistance plan may not be limited to the benefit they receive under their employer's DCAP. They may also be entitled to a tax credit under the federal Child and Dependent Care Tax Credit program (see page 35 for a profile of that program). In addition, parents with low incomes may also be entitled to a tax credit under the federal Earned Income Tax Credit program.

Corporate Income Taxes

Another approach to supporting child care is corporate tax provisions for employers. At least 14 states have established some form of an employer tax credit, which typically allows an employer to claim a corporate tax credit of up to 50 percent for the cost of an employee child care benefit.

Unfortunately, these credits appear to have had minimal impact. A 1989 study by the Child Care Action Campaign (CCAC) found that fewer than 1 percent of eligible employers actually took advantage of the employer credits.[2] Even in Connecticut, which has a relatively well marketed and quite generous employer tax credit, only 45 out of 80,000 eligible companies claimed the credit in 1989. Because comprehensive information on states that have established employer tax credits is available from CCAC (see the appendix on page 119 for its address), we elected not to include them in this compendium. Instead, a lesser-known Colorado tax credit that applies to any taxpayer—an individual or a business—has been profiled. While this tax credit currently is limited to enterprise zones, efforts are under way to expand it statewide.

Local Business Property Taxes

The final entry in this section focuses on a local property tax abatement in Texas that includes potentially significant funds for child care. Local governments often offer property tax abatements as a way to encourage industry to locate (or remain) in their area and/or to spur expansion of existing local businesses. Special funds to help support child care may be included in these abatement agreements. Child care is viewed in this context as a necessary part of a community's economic development strategy. Rather than being viewed as an expenditure for child care, the tax abatement strategy approaches these costs as part of the overall incentive package.

TAX CREDITS, DEDUCTIONS AND EXEMPTIONS (Personal Income Taxes)

Child and Dependent Care Tax Credit (Federal)

Description

The federal Child and Dependent Care Tax Credit (CDCTC) allows all families with child care expenses to claim a credit against federal taxes owed equal to a percentage of their employment-related expenditures for any form of child care—if both parents are working or, in the case of a one-parent family, if that parent is in the workforce. Children must be under age 13 and live with the parent(s) claiming the credit. The law limits creditable expenses to $2,400 for one child and $4,800 for two or more children. The expense limits were set in 1981 and reflected average prices for care at that time. The credit is not indexed for inflation as other parts of the tax code are (e.g., the personal exemption, standard deduction and earned income tax credit).

The credit declines as income rises:

Adjusted gross income	Percentage of credit allowed
below $10,000	30%
$10,000-$12,000	29%
$12,000-$14,000	28%
$14,000-$16,000	27%
$16,000-$18,000	26%
$18,000-$20,000	25%
$20,000-$22,000	24%
$22,000-$24,000	23%
$24,000-$26,000	22%
$26,000-$28,000	21%
above $28,000	20%

The maximum credit of $720 for families with one child, or $1,440 for families with two or more children, is available to families with incomes below $10,000 (who are able to spend up to the limits). However, in practice, virtually no families are able to claim the maximum credit because families with incomes this low are unlikely to be able to spend to the expense limit, and they often have no tax liability. In 1995, a one-parent family with one child would

2. Euben, D., and B. Reisman. November 1989. *Employer Tax Credits for Child Care: Asset or Liability?* N.Y.: Child Care Action Campaign.

not owe federal income taxes until their income exceeded $11,000. The maximum credit for families with incomes over $28,000 is either $480 for families with one child or $960 for families with two or more children.

When Established

The 1954 revisions to the federal tax code added a provision to allow a tax deduction for certain employment-related child/dependent care expenses. The deduction was converted to a credit in 1976. Expense limits were raised, the sliding scale was established, and the maximum credit was raised to 30 percent beginning with tax year 1982. In tax year 1983, the credit became available to taxpayers filing the "short" tax return form (1040A).[1]

Amount Generated Annually

The estimated federal revenue loss associated with the CDCTC was $2.8 billion in federal tax year 1994[2]—significantly lower than comparable levels for 1988, when the cost of the CDCTC was $3.8 billion. The federal Family Support Act of 1988, among other changes, modified the IRS code to provide that a taxpayer would not be eligible for the CDCTC unless the tax return included the name, address and taxpayer identification number of the dependent care provider. In apparent response, the number of returns claiming CDCTC dropped from 9 million in 1988 to 6 million in 1989.[3]

There is no cap on the number of families who may participate or the total amount that all families collectively may claim. The only limits are those on expenses that may be used to calculate the credit (described above), and the requirements for claiming the credit, which may deter some from using it, such as the need to have a provider's tax identification number and to file the necessary forms as an employer if in-home care is used. (If the provider is a nonprofit corporation, then parents are not required to supply the tax identification number.)

Services Funded

Generally, the credit can be claimed for any form of child care, in-home or out-of-home, that is employment-related; if the provider cares for more than six children, the provider must comply with applicable state and local laws and regulations. The taxpayer must have paid for the care, and must supply the name and taxpayer identification number of the person or organization that provided the care. The cost of care claimed cannot exceed the earned income of the lower-earning spouse.

How Funds Distributed

Expenditures are made throughout a year and the tax credit is claimed on the annual income tax return for that year due in mid-April of the following year. Rather than receiving a larger refund long after having paid for the child care, taxpayers who can predict their child care costs may choose to adjust their federal tax withholding amounts to account for the credit, thus receiving the benefits throughout the year.

Population Served

All families with federal tax liability and employment-related care expenses can claim the credit within the limits described. All types of child care qualify for the credit.

Families with very low incomes cannot take advantage of this credit because they owe no federal tax and the credit is not refundable. For example, a single-parent family with one child owes no tax until their adjusted gross income exceeds $10,750. A two-parent family with one child owes no federal tax until their adjusted gross income exceeds $14,000.

Strategic Considerations

- Because the credit is available to all families for all types of child care, it appeals to a wide constituency.
- As part of the tax code, it is easier to administer than are direct-benefit programs that require more staff.

1. If the parent(s) participate in their employers' federal dependent care assistance plan (DCAP—see page 35 for a profile of this benefit), the parent(s) are required to offset what they receive under the DCAP with this tax credit program. In some circumstances, the parent(s) may not be able to collect both benefits. In addition, parents with low incomes may also be entitled to a tax credit under the federal Earned Income Tax Credit program.
2. Caspar, L., M. Hawkins and M. O'Connell. 1994. *Who's Minding the Kids?* Washington, DC: U.S. Department of Commerce, Bureau of the Census.
3. U.S. House of Representatives, Committee on Ways and Means. 1994. *Overview of Entitlement Programs: 1994 Green Book.* Washington, DC: U.S. Government Printing Office.

- Historically, tax provisions have been stable funding mechanisms because they are not subject to the debates of regular reauthorization or annual appropriations.
- The tax credit (along with the federal dependent care assistance plan) is currently the only source of federal support for the work-related child care expenses of middle-income families. Such tax provisions are evidence of public support for the necessary expenses of working that all families with young children incur.
- The federal tax code includes other credits that are refundable, e.g., the federal earned income tax credit, which is refundable and capped, and is designed with a sliding scale benefiting lower-income families the most. Although the child care credit is available to families of all income levels, because the credit is not refundable, families owing little or no federal tax cannot take full advantage of it. About 60 percent of the credit's benefits go to families with incomes under $50,000.[4] Just under 5 percent of the benefits go to families earning less than $15,000.[5] While lower-income families apparently derive greater percentage benefits, actually they are unlikely to be able to afford to spend enough to take full advantage of the credit.
- Relative to the current average price of child care, the amount of benefit a family receives through the tax credit is small. Moreover, because the credit is not indexed, the benefits it provides diminish over time. However, the tax credit is helpful if a family has federal tax liability.
- The credit treats all forms of child care equally, that is, the credit does not favor one form of care over another. Furthermore, the credit is not affected by the quality of child care used. Unlike federal mortgage interest deduction, which provides a significant enough benefit to affect consumer behavior, the value of the child care credit is probably too small an amount of money to affect consumer choices in the direction of purchasing higher-cost or better-quality child care.
- There have been efforts to phase out the credit for higher-income families (e.g., phasing out the credit for families with incomes over $60,000 was one of hundreds of options for reducing the deficit that were presented to Congress by the Congressional Budget Office [CBO] in early 1995[6]). Thus far, these efforts have been unsuccessful. Advocates in the child care community have opposed these changes because the expected savings realized from phasing out would not have been redirected within the child care credit program.

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4. Congressional Budget Office. 1995. *Reducing the Deficit: Spending and Revenue Options*, p. 349. Washington, DC: U.S. Government Printing Office.

5. Gold, S.D., and D.S. Leibschutz. 1996. *State Tax Relief for the Poor*. Albany, NY: Center for the Study of the States, Rockefeller Institute of Government.

6. Congressional Budget Office. 1995. *Reducing the Deficit: Spending and Revenue Options*. p. 349. Washington, DC: U.S. Government Printing Office.

TAX CREDITS, DEDUCTIONS AND EXEMPTIONS (Personal Income Taxes)

Child and Dependent Care Credit (Minnesota)

Description
Minnesota allows families with child care expenses to claim a refundable child and dependent care tax credit against state personal income taxes owed. The credit is on a sliding scale favoring lower-income families and has income limits indexed for inflation. Minnesota also provides a credit for families with an infant (born during the tax year), regardless of whether they had child care expenses, and provides a credit for operators of licensed family child care homes to claim a credit for their own children who are under age six.

When Established
Minnesota's child care credit was established in 1977. The provision for family child care operators took effect for tax year 1992; the infant credit took effect for tax year 1994.

Amount Generated Annually
Like the federal tax provisions, Minnesota's state child care tax benefits are not capped in terms of the total number of families who may file for them or the total amount claimed by all filers. In 1994, the child care tax credit was claimed on 38,949 Minnesota tax returns for a total of $12,256,000.

Minnesota's tax credit is targeted to help lower-income families. For tax year 1995, families with incomes under $16,050 are generally eligible for the maximum state credit—100 percent of the federal credit for which the family would have been eligible. Families who cannot claim the federal credit because of their limited federal tax liability remain eligible for the state credit. Thus, the maximum amount a family may claim as a state credit is $720 for one dependent and $1,440 for two or more. Families with incomes over $29,700 are not eligible for the state credit. In between these income levels, the credit amount declines proportionately as income increases: for every additional $350 of income, the credit declines by $18 (or $36 if the claim is for two or more dependents). Minnesota's credit is refundable, making it valuable for low-income taxpayers who owe no taxes. (Six other states have refundable child care credits.)

Minnesota extended its credit to licensed family child care providers (who are income-eligible) for the care of the provider's own children under age six. For children under 16 months of age, the credit is claimed based on expenses of $2,400. For a child between the ages of 16 months and six years, the credit is based on the amount the provider would have charged to care for a child the same age and for the same number of hours of care.

Minnesota's credit permits an income-eligible, married-couple family with a newborn (i.e., an infant born during the tax year) to claim a credit based on $2,400 of expenses even if the family had no child care expenses.

Services Funded
Generally, state tax provisions allow claims for the same range of child care services as the federal credit. Any legal form of child care used so that the parent(s) can work is allowable: child care centers, nursery schools, family child care homes, nannies, relatives (nondependents over age 18) and day camps (but not overnight camps). Arkansas is the only state that structures its tax credit to recognize quality—the credit is doubled for families with three- to five-year-old children enrolled in the Arkansas quality approval system.

Minnesota allows taxpayers to claim a credit based on the same expenses as those eligible for the federal credit.

How Funds Distributed
Child care expenses are paid throughout the year, and the tax credit is claimed on the annual income tax return. Taxpayers who can predict their child care costs may choose to adjust their state tax withholding amounts to account for the credit, thus receiving the benefits throughout the year.

Population Served
Minnesota has limited its tax credit to lower-income families; families with incomes over $29,700 are not eligible for the credit. Seven states (including Minnesota) cap their child care tax credit by imposing an upper income limit. Most states follow the federal model and allow families at all income levels to claim the credit.

Like nearly all other states with child care tax provisions, Minnesota's tax credit applies to child care for children up to age 13 years, the same age limit as the federal credit.

Strategic Considerations

- Generally, the justification for state child care tax credits is similar to that for the federal credit. Tax credits are public recognition of the work-related expenses that families with young children incur.
- Child care tax provisions are one of many strategies to help families afford child care. Tax credits may be more politically feasible than direct spending in the current anti-tax, budget-cutting climate. Tax credits alone are insufficient for lower-income families. The actual benefits often are too small to help the lowest-income families, and tax credits do not directly influence the quality of child care chosen by a family.
- In general, deductions are worth much less to taxpayers than credits, and deductions favor higher-income taxpayers over lower-income ones.
- State tax provisions that are directly linked to the federal provision share the strengths and liabilities of the federal credit. The federal credit is on a sliding scale favoring lower-income families and is available to all families. However, the federal credit is not refundable and is not indexed for inflation.
- States with tax credits linked to the federal credit can minimize the downside by basing their credits on either the eligible federal expenses or the potential credit (rather than the actual federal credit). This will enable families who cannot claim the federal credit to benefit from the state credit.
- State tax credits that are refundable help lower-income families who may have no tax liability.
- To ensure that all families are aware of child care tax credits, the tax credit should be incorporated into both the "long" and "short" tax return forms. Many lower-income families use the short form, so it is particularly important to include the tax credit there.
- Expense limits that reflect the average cost of good child care in the state and are indexed for inflation will help families more than fixed expense limits.
- States can target assistance to lower-income families by offering credits instead of deductions, making the credit refundable, indexing the credit for inflation, using sliding scales that favor lower-income families and putting the tax credit on the short form.
- A few state child care tax provisions are designed to "sunset." For example, California had a modest credit that expired at the end of 1993 and has not been reenacted. Montana's child care deduction expired in 1994. Most states' child care tax provisions are permanent.

Other Sites With Similar Strategy

As noted above, 25 states and the District of Columbia have child care income tax provisions. See page 33 for a chart summarizing child care tax provisions for all states.

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STATE INCOME TAX PROVISIONS FOR CHILD CARE[1] (1995 unless noted)

States (with personal income taxes)[2]	Type of child care provision	Description	Refundable?	Income cap?	Maximum benefits (for 1 dep./2 or more dep.)
Alabama	none				
Alaska	credit	16% of federal credit	yes	no	$115/$230
Arizona	none				
Arkansas	credit	10% of federal credit; 20% if accredited center for 3- to 5-year-olds	no, except accredited preschool	no	$144/$288
California	none				
Colorado (1996)	credit	50% of federal credit <$25,000; 30% of federal credit for $25,000-$35,000; 10% of federal credit for $35,000-$50,000	yes	$50,000	$360/$720
Connecticut	none				
Delaware	credit	50% of federal credit	no	no	$360/$720
District of Columbia	credit	32% of federal credit	no	no	$230/$461
Georgia	none				
Hawaii	credit	25% of eligible expenses for <$22,000, sliding in $2,000 income increments to 15% for incomes > $40,000	yes	no	$600/$1,200
Idaho	deduction	deduct expenses eligible for federal credit	no	no	$197/$394
Illinois	none				
Indiana	none				
Iowa	credit	75% of federal credit <$10,000 65% for $10,000-$20,000 55% for $20,000-$25,000 50% for $25,000-$35,000 40% for $35,000-$40,000	yes	$40,000	$540/$1,080
Kansas	credit	25% of federal credit	no	no	$180/$360
Kentucky	credit	20% of federal credit	no	no	$144/$288
Louisiana	credit	10% of federal credit, but not >$25	no	no	$25/$25
Maine	credit	25% of federal credit	no	no	$180/$360
Maryland	deduction	deduct eligible federal expenses	no	no	$144/$288

1. This chart was compiled from two main sources augmented by telephone interviews. These sources are: Steinschneider, Campbell and Williams. 1994. *Making care less taxing: Improving state child and dependent care tax provisions.* Washington, DC: National Women's Law Center; and Gold and Liebschutz. 1996. *State tax relief for the poor.* Albany, NY: Rockefeller Institute of Government, Center for the Study of the States.

2. Nine states do not tax personal income: Alaska, Florida, Nevada, New Hamphshire, South Dakota, Tennessee, Texas, Washington and Wyoming.

STATE INCOME TAX PROVISIONS FOR CHILD CARE[1] (1995 unless noted)

States (with personal income taxes)[2]	Type of child care provision	Description	Refundable?	Income cap?	Maximum benefits (for 1 dep./ 2 or more dep.)
Massachusetts	deduction	deduct maximum of $2,400 or $4,800	no	no	$143/$286
Michigan	none				
Minnesota	credit	100% of federal credit <$16,050; sliding in $350 income increments to no credit for incomes over $29,700	yes	$29,700	$720/$1,440
Mississippi	none				
Missouri	none				
Montana	none				
Nebraska	credit	25% of federal credit	no	no	$180/$360
New Jersey	none				
New Mexico	credit	40% of eligible expenses up to $8/day	yes	$17,680	$480/$960/ $1,200 (3+)
New York (1996)	credit	60% of calculated federal credit <$10,000 sliding in equal increments to 20% for incomes over $14,000	yes	no	$432/$864
North Carolina	credit	For incomes <$25,000: 13% of federal expenses for child <7 years and 9% for child 7 or older $25,000-$40,000: 11.5% for <7 and 8% for 7+ over $40,000: 10% for <7 and 7% for 7+	no	no	$312/$624
North Dakota	none				
Ohio	credit	35% of federal credit for <$20,000 25% for $20,000-$40,000	no	$40,000	$252/$504
Oklahoma	credit	20% of federal credit	no	no	$144/$288
Oregon	credit	30% of federal expenses for <$5,000 15% for $5,000-$10,000 8% for $10,000-$15,000 6% for $15,000-$25,000 5% for $25,000-$35,000 4% for $35,000-$45,000	no	$45,000	$720/$1,440
Pennsylvania	none				
Rhode Island	credit	27.5% of federal credit	no	no	$198/$396
South Carolina	credit	7% of eligible federal expenses	no	$10,000	$168/$336
Utah	none				
Vermont	credit	25% of federal credit	no	no	$180/$360
Virginia	deduction	deduct eligible federal expenses	no	no	$138/$276
West Virginia	none				
Wisconsin	none				

TAX CREDITS, DEDUCTIONS AND EXEMPTIONS (Personal Income and Employment Taxes)

Federal Dependent Care Assistance Plan (New York State)

Description
New York State has established a flexible spending account for its employees—called the Dependent Care Advantage Account Program (DCAAccount). IRS rules specify that employees must pay their dependent care expenses and then request reimbursement from the pre-tax funds they have set aside through payroll deduction. The DCAAccount program has taken some unique steps to greatly reduce the time between payment and reimbursement, which makes participation in the program feasible for moderate-income families. New York State allows funds set aside in a DCAP to be exempt from state income taxes as well.

When Established
The plan was implemented in 1991 as a result of collective negotiations between New York State and its major public employee unions.

Amount Generated Annually
The average participant will have saved $1,500 in combined federal and state personal income taxes for the tax year 1996. Although the state loses state taxes on the amount participants set aside, it saves federal Social Security (FICA) taxes on these funds. (In 1995, New York State saved approximately $862,000 in federal FICA taxes.) Projections indicate that for fiscal year 1996, the FICA savings will exceed the loss in state tax revenue, resulting in a cost-positive program.

Services Funded
Funds may be set aside if they are used to pay for care of a child under 13 years of age (children with special needs may be older) who is a dependent by federal tax rules, or for an adult dependent who is unable to care for him- or herself. These services may be provided in the home or in another child care location, but not by someone who is claimed as a dependent for tax purposes. The taxpayer must provide the name, address and Social Security number (or taxpayer identification number) of the dependent care provider.

How Funds Distributed
The New York State Labor/Management Child Care Advisory Committee (NYSLMCCAC) oversees the program. Claims are reviewed and processed by a third-party administrator under contract with the Governor's Office of Employee Relations on behalf of the NYSLMCCAC.

Population Served
All state employees, including employees of the legislature and the Unified Court System, are eligible to participate. More than 3,000 employees currently are enrolled. Most participating employees have annual incomes above $25,000.

Strategic Considerations
NYSLMCCAC wanted to establish a work/family benefit that was available to a wide group of families, not just those who had children enrolled in their network of work-site child care centers. DCAAccount funds may be used in a wide range of child and elder care settings. In considering this strategy, the following issues should be explored:

- Many employees find it difficult to wait for reimbursement of their child care expenses. To help alleviate this problem, NYSLMCCAC staff have worked closely with the DCAAccount third-party administrator to ensure a quick and efficient reimbursement process. These features include: a toll-free fax line for reimbursement claims; direct deposit of reimbursement and daily check-writes or wire transfers; and no minimum restrictions for reimbursement. A toll-free hot line for questions or problems is also available.
- Employees often do not have the cash flow necessary to cover the "double hit" that occurs in administration of a dependent care assistance plan program. In other words, participants must pay their child care provider and have sufficient funds in their account through payroll deduction before they can be reimbursed for eligible expenses. To minimize this problem, NYSLMCCAC does not make payroll deductions from the first or last paycheck of the plan year. This allows users to accumulate eligible expenses and submit a reimbursement claim form prior to the first payroll deduction and also enables employees to have full paychecks during the holiday season.

- Many employees are concerned about the IRS "use it or lose it" rule, which requires that they spend the full amount set aside for dependent care expenses or forfeit these funds. To help address these concerns, NYSLMCCAC staff contact each employee (by certified letter and/or phone) who still has funds in their account at the end of the plan year to ensure that they understand the IRS rule and have the opportunity to expend any unused funds before the deadline.
- In some cases, using the federal and state dependent care tax credit provides greater tax benefits. Families need to carefully analyze the tax benefits of various approaches, a process that can be complex. NYSLMCCAC offers employees assistance in conducting this analysis and making a decision about how much money to set aside.
- Nationally, dependent care assistance plans generally do not benefit employees with annual incomes below $20,000. These employees typically find greater benefit from using the federal child and dependent care tax credit. The income cutoff is even higher in states that have established a state dependent care tax credit. NYSLMCCAC reports that New York State families must have incomes above $25,000 before participation in a dependent care assistance plan results in a significant tax savings.

Other Sites With Similar Strategy

At least 36 states have established dependent care assistance plans for some or all state employees, including the states of: Alaska, California, Colorado, Florida, Georgia, Illinois, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virgin Islands, Vermont, Washington, Wisconsin and Wyoming. Many private employers have established DCAPs as well. See the Con Agra Child Care Initiative, on page 68 of this report, for further information on a private-sector plan that benefits employees with low and moderate incomes.

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TAX CREDITS, DEDUCTIONS AND EXEMPTIONS (Corporate Income Taxes)

Enterprise Zone Contributions Tax Credit (Colorado)

Description
Colorado's enterprise zone law created a state income tax credit to encourage taxpayers to make contributions to assist enterprise zones in implementing their economic development plans and to promote child care in enterprise zones. The amount of the credit is 50 percent of the value of cash contributions (up to a maximum of $100,000 per year) and 25 percent of the value of in-kind contributions. If the credit exceeds the contributor's Colorado income tax liability, the excess credit may be carried forward up to five years.

When Established
Child care contributions made to enterprise zone administrators on or after May 24, 1990, may qualify for the credit.

Amount Generated Annually
$1.4 million was generated for child care programs and services in calendar year 1995.

Services Funded
Contributions may be made for the following purposes: establishing a child care facility; training child care providers; establishing a fund for making grants or loans to parents residing or employed in the zone; and establishing a child care information dissemination or referral program.

How Funds Distributed
The contribution must be made directly to a designated enterprise zone administrator. The administrator certifies that the purpose of the contribution is to promote child care in the zone and then transfers the funds to the child care program specifically named by the taxpayer.

Population Served
Either the child care facility to whom the contribution is targeted must be located in an enterprise zone or the parent or trainee (who receives scholarship funds) must reside or be employed in the zone.

Strategic Considerations
The credit was initiated by a group of individuals interested in expanding the supply of child care—and promoting employer-supported child care in particular—in the state of Colorado. A tax credit mechanism for the economic development zones already existed, and it made sense to expand it to include child care rather than establish an entirely new credit.

Several revisions to the Colorado law are currently being explored, including proposals to reduce the credit from 50 percent to 25 percent. In considering this strategy, the following issues should be explored:

- A strength of this approach is that it builds on the voluntary sector (that is, it isn't perceived as a government program and allows taxpayers to choose where they want tax funds to go). Some policy makers are concerned, however, that allowing taxpayers to choose where tax funds go undermines their role in allocating resources.
- Limiting the credit to economic development zones is inequitable. There is often a geographic mismatch between zones and child care needs. Colorado's Business Commission on Child Care Financing recommended that the credit be expanded statewide. The proposal is under consideration.
- Using the zone administrator as a "middleman" for distributing funds is cumbersome, increases administrative costs and discourages smaller contributions. Handling the paperwork for these contributions (especially if they are small) can be a headache for a zone administrator, who typically knows very little about child care. To this end, the state is considering an amendment to allow funds to be contributed directly to the child care program rather than passing through the zone administrator.

Other Sites With Similar Strategy
None have been identified.

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TAX CREDITS, DEDUCTIONS AND EXEMPTIONS (Local Business Property Taxes)

Property Tax Abatement (Travis County, Texas)

Description
The Texas State Legislature has enacted laws to allow local governments to offer incentives to attract new companies and expand existing ones. Travis County recently executed its first tax abatement agreement with the Samsung Austin Semiconductor Company.[1] Establishment of a dedicated fund to support job training (including child care costs) was part of the agreement.

When Established
In 1995, Travis County elected to participate in the tax abatement process, and established guidelines and criteria for approving abatements. In 1996, the county executed its first tax abatement agreement with Samsung.

Amount Generated Annually
Under the abatement agreement, 100 percent of the property taxes owed by Samsung will be apportioned as follows:

40 percent baseline tax abatement (incentive for locating in Austin)

15 percent additional tax abatement "bonus" if Samsung fills 40 percent of jobs with targeted workers

20 percent taxes set aside (by county) to support job training of targeted workers, including the cost of child care

25 percent taxes transferred to the county general fund

While the total property taxes owed by Samsung have not been determined (because the facility hasn't been built yet), it has been estimated that the abatement agreement will generate at least $1.5 million a year for job training, including child care. The abatement will be in effect for 10 years. The precise amount set aside for child care will depend upon the number of individuals who participate in job training and need child care.

Services Funded
Subsidized child care for targeted workers participating in job training programs designed to help them obtain the skills they need to work for Samsung and other employers in Travis County.

How Funds Distributed
Samsung will work with the Travis County Workforce Development Board to identify and support job training programs that are approved by the county and are appropriate training for prospective staff. Support services, including child care, will be part of this agreement. Property taxes will be paid by Samsung to Travis County. The county will use a portion of the taxes it collects from Samsung to pay for job training programs and other support services for targeted workers.

Population Served
Child care will be made available to targeted workers. The term "targeted workers" includes individuals who: reside in Travis County with a family income at or below 80 percent of the county median income, or reside in public housing, and are trained in a Workforce Development Board training program or any other training program approved by the county.

Strategic Considerations
The tax abatement is designed to attract "high-tech" companies who are willing to create new jobs, hire targeted workers and make a capital investment of at least $250,000 per new job created. The job training set-aside was included to ensure that low-income individuals who currently reside in Travis County are able to apply for the new jobs rather than the company's drawing employees from other areas. Child care is a critical component because many individuals are unable to participate in job training programs because they cannot afford child care. In considering this strategy, the following issues should be explored:

- The strategy ties child care directly to economic development. It isn't a separate child care initiative, but an integral part of a community investment plan. Rather than being viewed as an expenditure for job training and child care, the tax abatement strategy approaches these costs as part of the overall incentive package.

1. At the time this profile was prepared, Travis County was in the process of negotiating a similar tax abatement agreement with another high-tech company, Photronics.

- Including child care in an initial tax abatement agreement can help lay the groundwork for future investments in an employer-supported child care benefit once the employees are hired.
- The strategy is viable only in areas of high growth. Communities that can employ this strategy effectively must have the capacity to attract companies that are large enough employ a significant number of people, target a percentage of their jobs to low-income individuals and invest in training those individuals.

Other Sites With Similar Strategy

Many states and communities have tax abatement laws. The extent to which these policies include a set-aside for child care and/or job training is unknown. Connecticut allows cities to provide property tax exemptions to businesses that offer child care services to town residents.

Some cities and counties have the capacity to create redevelopment agencies that earmark increased local tax revenue and use these earmarked funds to support capital construction projects in distressed or blighted communities. The Los Angeles Community Development Agency has, for example, established a policy that recognizes child care as a fundamental tool in achieving the goals of redevelopment agencies. Additionally, the redevelopment agencies in several California cities have begun to establish "fund-swapping" agreements between the redevelopment agency and the local government that can help make operating funds available to child care and early education programs.[2]

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2. For further information, see *Linking Child Care Development and Public Sector Redevelopment* by J. E. Stokley, The National Economic Development and Law Center, Oakland, CA, (510) 251-2600.

FEES AND LOTTERIES

While sales taxes are the major source of state revenue, and property taxes are the primary source of revenue for localities, another way in which states and localities can generate revenue is through fees. Fees typically are charged to cover all or part of the cost of providing a service, such as producing birth certificates or granting licenses to practice an occupation. Fees may be charged for the use of a public facility, such as a park or swimming pool, or for a particular public service, such as garbage collection or water.

Charging fees for child care licensing is becoming common. Revenue from these fees may be used to help offset the cost of licensing or, as in the Virginia profile included in this section, to generate revenue for other child care quality-improvement activities. Fees may be generated by one enterprise and used to fund another unrelated activity. Massachusetts will use revenue generated from vehicle license plate fees to support a fund for child care improvement.

To generate revenue for public services 37 states have established lotteries. In 1993, states realized profits of $9 billion from lottery ticket sales of $25.2 billion. On average, 36 percent of lottery sales is transferred to government as profit, 14 percent is used to cover operating expenses and commissions, and 50 percent is used to pay prizes. Twelve states deposit lottery profits in the general fund. Twenty-four states earmark lottery profits for a specific purpose, including: education (California, Florida, Idaho, Illinois, Massachusetts, Michigan, Montana, New Hampshire, New Jersey, New York, Ohio and West Virginia); state building funds (Colorado, Idaho, Kansas, Maryland and South Dakota); economic development (Arizona, Kansas and Oregon); parks and natural resources (Colorado, Minnesota and West Virginia) as well as local transportation, law enforcement, senior citizen services and property tax relief. Earmarking lottery profits does not guarantee, however, that these funds will be used to increase or improve services. In many cases, earmarked lottery profits are used to replace general fund dollars that are reallocated to other programs.[1] Two states that use lottery funds to support their prekindergarten programs are profiled—Georgia and Florida.

FEES AND LOTTERIES

Child Care Licensing Fees (Virginia)

Description

The state of Virginia collects an annual fee from each licensed child care center and family child care home.[2] Annual fees are based on licensed capacity and range from $200 for a center with a capacity of more than 200 children to $14 for a licensed family child care home. Family child care systems pay an annual fee of $70. Short-term programs (such as summer camps) pay $25 per year if they serve up to 50 children, and $50 per year if they serve more than 50 children.

When Established

Legislation establishing the fees was passed in 1983 and was implemented in 1984.

Amount Generated Annually

Revenue from child care licensing fees averages $250,000 per year. These fees are generated from approximately 2,300 licensed centers and 1,200 licensed homes.

Services Funded

Licensing fees are used to support training workshops, "train the trainer" sessions, and training and technical assistance materials for licensed child care centers and family child care homes. (Additionally, the Division of Licensing has used funds from the federal Child Care and Development Block Grant to support training and scholarship opportunities for all child care providers—including registered family child care homes and providers that are exempt from licensing—and consumers of child care.)

How Funds Distributed

The Division of Licensing—through contracts with private entities or by using its own staff—develops training curricula and delivers training. Training on a wide range of topics is made available to staff and directors of all licensed child care programs in the state. Training topics are identified based on formal

1. National Conference of State Legislatures *Legisbrief*. Vol. 3, No. 25, June/July 1995.

2. The term "licensed child care center" includes most nursery schools, school-age child care programs, Head Start agencies and many summer camps. The term "licensed family child care home" includes only homes that care for six to 12 children. Virginia has a voluntary registration system for family child care homes that care for fewer than six children. Registered providers are not required to pay a licensing fee.

and informal needs assessments conducted with child care providers, Division of Licensing program staff and the Child Day Care Council.

Population Served

Funds generated from licensing fees are used to support training of licensed child care centers and family child care homes. Other federal or state funds may be used to support training for regulation-exempt providers and consumers.

Strategic Considerations

The Virginia Legislature began to consider a proposal to establish licensing fees to help offset the cost of regulating child care programs in 1982. The Department for Children (a government coordinating and advocacy body that was disbanded in the early 1990s) successfully argued, however, that child care licensing fees could not generate enough money to offset the cost of regulating providers, and recommended instead that the fees be used to help fund provider training. The proposal was revised to incorporate these principles, and it passed the following year. In thinking strategically about this approach, key points to consider include:

- Provider groups may be less likely to oppose licensing fees if the fees are used to support provider training. Strong objections to licensing fees most often occur in situations where the revenue from fees goes into the state general fund and is not used to enhance training or other child care services.
- Due to limited resources and the pressure to keep parent fees low, many boards and owners of child care programs are reluctant to budget funds for professional development; charging fees (that are used for training) effectively requires them to set aside some funds for this purpose. If licensing fees are combined with other funds to support a comprehensive training initiative, child care programs have greater access to more varied and higher-quality training than individual programs could find or afford on their own.
- Licensing fees can provide a stable source of funding for training activities and may help to leverage other state, federal or private-sector training funds.
- The link between licensing and training has been demonstrated by research indicating that staff training is a predictor of compliance with quality standards.[3]
- Fees could encourage family child care providers to avoid regulation, especially in states where regulation is voluntary.
- Some states are prohibited by law from charging licensing fees.
- At best, licensing fees can generate a limited amount of money for a very specific purpose. This strategy should be viewed as only one part of a larger strategy to strengthen training and technical assistance for child care providers.

Other Sites With Similar Strategy

Arkansas charges licensing fees and uses them to fund training grants and background checks. The Virgin Islands also use licensing fees for training and other activities. Idaho, Maine, Mississippi and North Dakota use fees for such activities as fingerprinting and background checks; health, sanitation and fire inspections; and program administration. Additionally, 23 jurisdictions—Arizona, California, Colorado, Connecticut, District of Columbia, Florida, Indiana, Kansas, Kentucky, Louisiana, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, New Mexico, Ohio, Oklahoma, Tennessee, Texas, Utah, Washington and Wisconsin—charge fees and transfer revenue to the state general fund.

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3. See Fiene, R. 1996. "Using a Statistical-Indicator Methodology for Accreditation," from *NAEYC Accreditation: A Decade of Learning and the Years Ahead,* pp. 61-64. Bredekamp, S., and B. Willer, Eds. National Association for the Education of Young Children. Washington, DC.

FEES AND LOTTERIES

"Invest in Children" License Plate (Massachusetts)

Description
Boston's Success By 6 Initiative, a program of the United Way of Massachusetts Bay, has filed legislation to establish a Child Care Quality Fund supported through the sale of specialized license plates with a distinctive design and the message "Invest in Children."

When Established
The bill passed the House in one day (through rules suspension engineered by the former speaker, who is a strong supporter of children's issues) and was enacted in 1996. The specialty license plates are available starting 1997.

Amount Generated Annually
Based on the revenue experience of another specialized license plate in Massachusetts, revenue projections are for $2 million the first year and modestly declining amounts in subsequent years. The amount generated annually depends on license plate sales. The local ABC-TV affiliate, WVBC-TV, is a partner in Success By 6 and has agreed to promote the license plates, which should increase sales.

Services Funded
Quality improvements in five categories will be funded: teacher training, parent/consumer education, equipment and materials, multicultural training and curricula, and technical assistance for program accreditation.

How Funds Distributed
The state Office for Children will administer the fund, which will offer competitive grants to non-profit child care organizations.

Population Served
Any nonprofit child care program in Massachusetts, and the children and families it serves, is a potential beneficiary.

Strategic Considerations

- The United Way decided to focus the efforts of the Success By 6 volunteers on influencing public policy and felt that the license plate legislation was a tangible product that would engage its volunteers. Further, when United Way calculated the level of projected revenue, it decided the best use of funds would be increasing the quality of early care and education programs.
- Buying a specialty plate is a voluntary act. A license plate offers the buyer both a tangible item and a symbol of their support for children.
- Establishing a quality fund within state government creates a line item in the state budget. Initially, the line will be for expenditure of funds raised by the plate, but it also can be used for other appropriations. United Way is confident this bill will pass.
- One theory about how to make good child care affordable to families holds that if various cost centers in the production of child care services (e.g., food, staff development and facility construction) could be supported through separate revenue sources independent of parent fees, the price of child care for families could be made affordable. Creating a dedicated fund for quality improvement has the long-term potential to affect the price of child care paid by consumers.

Other Sites With Similar Strategy
Nine states have some kind of license plate for children: Alabama (for education), California (for child health and safety), Connecticut (Keep Kids Safe), Florida (one for education and one for an early intervention trust fund), Indiana (Kids First), Louisiana (for child safety), Missouri (Children's Trust Fund), Oregon (child abuse prevention) and Tennessee (Helping Schools).

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FEES AND LOTTERIES

The Georgia Lottery for Education

Description

The Georgia Lottery for Education makes funds available to support the cost of prekindergarten and college education for all Georgia children and families. Funds are also generated to support capital projects related to education, including computers and other technology in the schools. The legislation expressly states that lottery funds must be used to supplement, not supplant, existing resources for educational purposes and programs.

When Established

The legislation was approved by the voters in 1992. Lottery tickets went on sale in June 1993.

Amount Generated Annually

Lottery appropriations for 1997 include $185 million for prekindergarten, $160 million for college scholarships and $200 million for capital projects (including $83 million for technology).

Services Funded

The Georgia Lottery was established to raise funds for three purposes: 1) prekindergarten programs; 2) college scholarships, grants and loans; and 3) capital outlay projects for educational facilities (such as computer systems, radio communications and technology upgrades for distance learning).

State prekindergarten funds pay for staff, materials, equipment, in-service training (which is required) and other program expenses. To receive funds, programs must offer prekindergarten services for at least six and a half hours per day and must provide transportation and family support services to income-eligible families who want and need services. (Income-eligible families include those eligible for Medicaid, AFDC, Food Stamps, WIC, free and reduced school lunch, subsidized housing or the federal earned income tax credit.) Prekindergarten services are provided in a wide range of settings, including nonprofit and proprietary child care centers as well as public schools.

How Funds Distributed

Thirty-five percent of total lottery sales is transferred by the Georgia Lottery Commission to an education account each quarter. From this account, the legislature makes appropriations for each of the three priority areas.

Funds for prekindergarten services are administered by a new state agency, the Office of School Readiness, which is not part of the Education Department and was recently established in law by the governor and the state legislature. The Office of School Readiness, which is directly accountable to the governor, issues a request for proposals and selects and monitors local contractors for the prekindergarten program.

The Office of School Readiness contracts directly with the programs providing prekindergarten services. Parents apply for prekindergarten at their local school or at the early childhood program that has been selected to provide prekindergarten services in their school district. No parent fees may be charged for the prekindergarten services unless the program operates for more than six and a half hours a day and/or more than 180 days per year. (Programs that exceed these hours and/or days may charge prorated fees.) Low-income families may apply for child care subsidies to help pay for the additional fees. The Office of School Readiness has negotiated an interagency agreement with the Department of Families and Children to facilitate payment of child care subsidies.

Population Served

Proceeds from the Georgia Lottery for Education support services that are made available to families at all socioeconomic levels. The Georgia prekindergarten program has been targeted to four-year-old children and was initially limited to low-income children who are at risk of school failure. In state fiscal year 1995-96, however, the program was opened to all four-year-old children, regardless of income.

College scholarships are available to all Georgia high school graduates, regardless of income, so long as they maintain a B average in school and attend a college or university located in Georgia. Funds for technology in the schools are made available to school districts statewide.

Strategic Considerations

Governor Zell Miller made the Lottery for Education a cornerstone of his election campaign. He promised the voters that he would give them the opportunity to vote on a constitutional amendment to establish a lottery, and that if they approved the amendment he would dedicate the funds to ensuring that preschool and college education were available to all Georgia families, and to expanding technology in the public schools. In considering this strategy, the following issues should be explored:

- Making it clear that lottery funds would be dedicated for specific purposes and ensuring that the law prohibited the funds from being used to supplant current expenditures was extremely important to the success of this initiative.
- Targeting lottery funds to preschool programs and college education (the two parts of the educational system that are supported largely by private tuition) and making these services available to families at all income levels helped to garner support from a broad consistency.
- Allowing private proprietary and nonprofit child care programs to apply for prekindergarten funds helped to reduce opposition to the proposal from private child care program operators.
- A vocal minority (led by conservative religious groups) continues to oppose the prekindergarten program. These groups believe that government has no role in early education and are strongly opposed to government-sponsored day care. The Office of School Readiness has addressed these concerns by continually stressing that the purpose of the Georgia prekindergarten is school-readiness (not child care) and that participation is voluntary.
- Rapid growth of the prekindergarten program (from 750 to 60,000 children in five school years) has resulted in a number of administrative challenges. Additionally, developing policies that work effectively with a wide range of providers (nonprofit and proprietary, in the public and private sectors) has not been easy.
- The governor recently moved the prekindergarten program out of the state Education Department into a new state agency, the Office of School Readiness. This reorganization was designed to establish a stronger, more institutionalized base of support for the prekindergarten program and make it easier to coordinate early education and child care funds from various sources. Unlike the state Education Department, which has an elected chief, the director of the Office of School Readiness is appointed by the governor. In addition to administering the prekindergarten program, the office is currently responsible for the child care food program and for licensing and monitoring the private-sector child care programs that participate in the prekindergarten program.
- Regardless of the purpose for which the funds are used, public lotteries are often controversial. Many voters and policy makers question the wisdom of government urging people to gamble frequently, especially when research shows that low-income people are the heaviest purchasers of lottery tickets. Critics point to the large advertising budgets of state lotteries as well as the lack of regulation over this advertising. Some opponents also feel that government lottery advertising has help to promote community-wide acceptance of gambling and contributed to the rapid spread of casino gambling.

Other Sites With Similar Strategy

Thirty-six states, in addition to Georgia, operate lotteries. Twelve of these—California, Florida, Idaho, Illinois, Massachusetts, Michigan, Montana, New Hampshire, New Jersey, New York, Ohio and West Virginia—dedicate a portion of all lottery profits toward K-12 or higher education. Concerns have been raised, however, that in many states lottery profits do not represent additional dollars for education but simply replace general fund dollars that would have been spent on education but are redirected to other programs instead.

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FEES AND LOTTERIES

The Florida Public Education Lottery

Description

The Florida Public Education Lottery is a self-supporting, revenue-producing operation of state government that is required by statute to function as much as possible as an entrepreneurial business enterprise. The net proceeds of the lottery games are deposited in the Educational Enhancement Trust Fund to be used for improvements in public education and not to substitute for existing resources for public education. Lottery funds support three broad categories of education: public schools, community colleges and the state university system. Within the public school category are various preschool projects.

When Established

A constitutional amendment to permit state-operated lotteries was approved by Florida voters in the 1986 general election. The Florida Legislature officially enacted the lottery in 1987.

Legislative amendments in 1991 established that 50 percent of the funds from lottery ticket sales be returned to the public as lottery prizes, at least 38 percent of the funds be deposited in the Educational Enhancement Trust Fund and 12 percent or less be used for operational expenses of running the lottery.

Amount Generated Annually

In the first two years (1987-88 and 1988-89), the lottery was moving into full-scale operation. Since 1989-90, the lottery has generated an average of $925 million annually for the trust fund, with a range from $829 million to $1.5 billion. Lottery funds represent about 6 percent of the Florida public school system's overall annual operating cost.

Since 1991, the legislature has appropriated lump sums of lottery proceeds to three categories of public education and established a fairly consistent allocation pattern: 70 percent is allocated to public schools and 15 percent each for community colleges and the state university system. Each educational system decides how to further allocate its share.

In fiscal year 1995-96, the lottery generated $828,980,000 for education. The public school share was $580,230,000. Within the 70 percent public school share, the legislature sets aside a specific appropriation for preschool projects—$104,167,355 in 1995-96 (about 18 percent of the public school portion).

Services Funded

Preschool projects are: the Prekindergarten Early Intervention Program, Migrant Preschool Education, First Start, Collaborative Community Partnerships and the State Coordination Council. Families can access these programs through their local public school district. All local child care resource and referral agencies have information for families about these programs.

The largest share of funds goes to support the Prekindergarten Early Intervention Program ($94.3 million in 1995-96). This program was enacted in 1986 to provide a developmental, preventive preschool education for four-year-old children whose family income is at or below 130 percent of the poverty level. The program now serves 29,000 children in all Florida school districts. To receive funds, districts must offer a program that operates at least six hours per day and 180 days per year. All or part of the operation maybe subcontracted to community-based nonprofit agencies.

Migrant Preschool Education was established in 1978 to supplement the federal Chapter I Migrant Program and ensure that early education was offered. It serves three- and four-year-old children whose families are migrant workers and operates full days, five days a week, during the school year. In 1995-96, the Migrant Preschool Program appropriation from lottery funds was $3.3 million, serving about 3,600 children. About one-third of all school districts are involved. The lottery funds are 60 percent and federal Chapter I (now Title I) funds are 40 percent of the total cost of operation. All or part of the operation maybe subcontracted to community-based nonprofit agencies.

First Start was established in 1989 to provide early quality parent/family education and support services to families of at-risk children from birth to three years of age. First Start is modeled on the Parents as Teachers program originated in Missouri. The First Start appropriation for 1995-96 was $3 million. Twenty-four school districts are involved. All or part of the operation maybe subcontracted to community-based nonprofit agencies.

Collaborative Community Partnerships are school-readiness incentive grants to local nonprofit organizations (including school districts) to promote collaboration among public school prekindergarten programs, Head Start and community-based child care. In 1995-96, a total of $3 million was appropriated for Collaborative Community Partnerships, serving 54 counties. The local efforts focused on improving service quality through professional development and program accreditation; increasing access to services by centralizing recruitment, intake and waiting lists; and improving families' access to comprehensive services through home visits, resource vans and other outreach, and changes in public transportation routes.

How Funds Distributed

Prekindergarten Early Intervention funds are allocated to school districts based on the number of full-time equivalent students served and on a cost per full-time equivalent of $3,200. All school districts participate.

The Chapter I Migrant Program and First Start are noncompetitive grants to school districts, which may subcontract with community organizations. Collaborative Community Partnerships are competitive grants to community organizations (including school districts).

The Office of Early Intervention and School Readiness in the Florida Department of Education administers all of the grants for lottery-funded preschool projects.

Population Served

All lottery-funded preschool projects are designed to serve children "at risk of school failure," which may be defined in a wide variety of ways. The Migrant Program focuses on families who are migrant workers; the Prekindergarten Early Intervention Program focuses on children whose families have incomes at or below 130 percent of the poverty level.

Strategic Considerations

- Earmarking lottery proceeds for a specific widely acceptable purpose such as education, rather than for state general revenue, makes state-operated lotteries more palatable to voters.
- Supplantation of existing education funds is a major concern about education lotteries. While the Florida Legislature expressed clear intent that the lottery not supplant existing resources for public education, the legislative language was not specific as to how supplantation would be judged. Lottery funds affect the allocation of state general revenue to education. Historical analysis in Florida shows a slow decrease in the proportional share of state general revenue allocated to education. In 1985-86, before the lottery, 62 percent of state general revenue went to education. In 1995-96, just 51 percent of state general revenue went to education. An effective maintenance-of-effort clause references both a baseline appropriation as well as a minimum proportionate share of state general revenue calculated without the lottery revenue.
- Since the Florida lottery was enacted, there also appears to have been a shift in the state/local share of education funding, increasing the local share. In 1986-87, just before the lottery, the state/local split in public school funding was 65 percent state and 35 percent local. By 1995-96, the split had shifted to 55 percent state general revenue, 6 percent lottery and 39 percent local. This shifts the tax burden toward localities, which rely primarily on property taxes for revenue.
- Lottery funds can fluctuate from year to year, making them a somewhat unpredictable source of funding.
- Lotteries are commonly viewed as a "regressive" means of generating revenue, meaning that poorer citizens are generating more of the funds than wealthier citizens.
- Some in Florida perceive a modest backlash against lotteries for education. Since most lottery funds go directly into a school district's general operating budget, they are relatively invisible to the public, who wonder where their "education lottery" money went. By contrast, preschool is easy to identify as being lottery-funded and is generally regarded as a positive addition. Further, there is no concern about "supplantation," since public preschool programs had no previous categorical source of funds.
- States generate $11 billion annually from lotteries and casino gambling.

- State-sponsored lotteries raise concerns about the state's role in promoting gambling, which can have significant social costs and is morally unacceptable to some. At the beginning of this century, all states had outlawed gambling. In the early 1930s, Nevada legalized gambling. In 1963, New Hampshire established a state-sponsored lottery. At present, 37 states sponsor lotteries and 24 states have legalized casino gambling. State-sanctioned gambling appears to public policy makers to be a less painful alternative for generating revenue than is direct taxation.

Other Sites With Similar Strategy

Lotteries operate in 37 states; 12 dedicate some or all proceeds to education. Only two states allow no gambling in any form (Utah and Hawaii). One other state (Georgia) specifically uses state lottery funds for preschool education and is profiled on page 43.

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ALLOCATING EXISTING PUBLIC GENERAL REVENUE

ALLOCATING EXISTING PUBLIC GENERAL REVENUE

The Children's Defense Fund estimated that, in state fiscal year 1994, state expenditures for all child care and early education services in the United States totaled more than $2.3 billion. In addition to the minimum allocation required to draw down federal funds, which amounts to $764 million across all states, nearly every state appropriated significant additional funds for child care services. Not including state funds to match federal funds, the state total is over $1.6 billion—$900 million for child care and $750 million for prekindergarten programs. The "State-by-State Funding for Child Care and Early Education Services" table (see page 51) provides information, state by state, on total expenditures for child care and early education services.

State investments in prekindergarten and family education programs have grown dramatically in the last decade. Before 1980, only a handful of states had prekindergarten programs. The education reform wave that swept the country in the early 1980s ushered in dozens of new programs. Most, like their predecessors, were part-day public school programs aimed at "educationally at risk, disadvantaged" four-year-olds. Since the mid-1980s, more and more states have created or revised their prekindergarten programs. Many of these newer programs are more responsive to family needs—offering longer hours for more than the school year and including comprehensive services. Also, most recognize the full range of early childhood programs (Head Start and child care centers) as potential providers of prekindergarten services. About half of all state-funded prekindergarten programs now either allow direct funding of community-based programs or permit school districts to subcontract. The State Investments in Prekindergarten and Family Education Programs table (see page 53) lists state-by-state information on investments in prekindergarten and family education programs.

States and communities cannot invest in child care unless they have the financial resources to do so. To this end, a majority of the strategies profiled in this section are aimed at generating additional revenue for child care (through targeted taxes, fees, lotteries and private-sector contributions). While increased revenues are an important condition—and often necessary—increased spending occurs as child care becomes a priority.[1] Thus, many states currently generate significant revenue through a range of non-targeted tax and fee strategies.

States and communities that decide to make child care a priority and increase the proportion of general revenue allocated for these services often link the decision to a particular rationale or trend that helps to garner public support. Some states stress the importance of ensuring that children are ready for school and link increased child care expenditures to education reform efforts. Texas used this rationale to argue for large increases in its state prekindergarten program. Georgia and Florida, both of whom used lottery dollars for child care (profiled, respectively, on pages 43 and 45 of this report), are also prime examples. Ohio, which has a multifaceted strategy called Families and Children First (which incorporates the federal Head Start program, public school prekindergarten and child care subsidies) has used the school-readiness rationale as well. The financing approaches used by Texas and Ohio are profiled in this section of the report.

1. Herk, M. 1993. *Helping the Hand that Rocks the Cradle: The Politics of Child Cae Policy at the State Level.* Unpublished dissertation: Princeton University. Woodrow Wilson School of Public and International Affairs.

States and communities may also use school buildings—and school budgets—to help support before- and after-school child care for school-age children. In this case, the rationale isn't necessarily school-readiness (although the educational benefits of school-age child care are sometimes stressed), but rather, the economic viability, convenience and public support for using schools for a longer portion of the day and year. Hawaii's A+ Program, which provides subsidized after-school child care for all eligible children enrolled in public schools, is an excellent example.

Colorado recently began to set aside a portion of crime and violence prevention funds for early childhood services. The goal of this effort was to send a clear message that child care and early education organizations can play an important role in crime prevention, and to encourage these organizations to develop new intervention strategies and community partnerships. The Early Childhood/Youth Crime Prevention and Intervention grant program is described in more detail in this section of the report.

Many states have linked increased child care expenditures to welfare reform, and have argued that women cannot leave the welfare rolls and enter the workforce without help in paying for child care. Wisconsin's decision to make child care a cornerstone of W-2, its new—and very controversial—welfare reform effort, is an example. The child care provisions of W-2 are profiled in this section.

Child care systems are not built on subsidies alone. State and local general funds are also spent on initiatives to improve the quality and expand the supply of child care. In recent years, most states have used federal Child Care and Development Block Grant (CCDBG) funds for this purpose. But some jurisdictions supported quality enhancement efforts long before federal funds became available, and used the new federal funds to expand or enhance these efforts. The child care quality improvement initiatives in Wisconsin are a prime example, and are described in more detail in a profile[2] (see page 57).

In many areas, the lack of suitable space in which to establish child care centers is also a major barrier. These jurisdictions have learned that effectively expanding the supply of child care means securing the funds necessary to invest in facilities. There are a host of strategies that can be used to raise funds for child care facilities, including appropriating a portion of state or local general funds to support grants or direct-loan programs, guarantee loans in the private market or repay debt on bonds. These strategies have been summarized in a separate section, "Financing Child Care Facilities" (see page 97).

State governments are beginning to recognize the key role that local funds and partnerships play in child care financing. A number of states require local governments to match state child care appropriations.[3] And some have developed strategies, such as North Carolina's Smart Start (see page 91), that allocate state general funds to local governments to support a diverse range of locally planned child development services.

Only a handful of the many child care initiatives that are supported by state general funds are profiled in this section. The initiatives illustrate diverse strategies for using general revenue.

2. A number of states used general funds to support child care quality enhancement initiatives prior to the 1990 passage of the federal child care (CCDBG) legislation. A decision was made to profile Wisconsin's efforts because the state has maintained support for quality-enhancement efforts, even though it is currently focused on reforming its welfare system.

3. The precise number of states that require a local match for child care funds is unknown. But 11 states—California, Colorado, Indiana, Minnesota, Montana, New Jersey, New York, North Carolina, North Dakota, Ohio and Wisconsin—required a local match for the Aid to Families with Dependent Children (AFDC) welfare program (now replaced by Temporary Assistance for Needy Families [TANF]), which included child care subsidies provided to these families (Gold and Ellwood, 1995).

STATE-BY-STATE FUNDING FOR CHILD CARE AND EARLY EDUCATION SERVICES[1]

(State Fiscal Year 1994)

State Name	Total state and federal funds (Includes federal and state child care funds, federal and state Head Start funds and state prekindergarten funds)[2]	State funds appropriated to match federal child care funds (Includes state share of IVA Funds—At-Risk, TCC and AFDC-related IVA child care funds)[3]	State funds appropriated independent of federal matching requirements for child care[4]	Total state funds appropriated
Alabama	$ 97,670,155	$ 6,362,051	$ 2,088,023	$ 8,450,074
Alaska	$ 32,507,064	$ 2,955,483	$ 18,112,577	$ 21,068,061
Arizona	$ 94,689,741	$ 7,322,450	$ 10,811,350	$ 18,133,800
Arkansas	$ 50,283,847	$ 1,179,740	$ 9,943,453	$ 11,123,193
California	$1,024,521,403	$ 90,936,934	$ 379,840,244	$ 470,777,178
Colorado	$ 80,471,138	$ 9,668,489	$ 10,205,349	$ 19,873,838
Connecticut	$ 86,646,686	$ 15,104,117	$ 17,403,662	$ 32,507,779
Delaware	$ 18,279,279	$ 4,069,767	$ 1,460,899	$ 5,530,666
Florida	$ 381,544,913	$ 42,571,101	$ 89,937,357	$ 132,508,458
Georgia	$ 192,776,202	$ 20,239,619	$ 37,133,645	$ 57,373,264
Hawaii	$ 36,257,667	$ 2,172,926	$ 20,173,766	$ 22,346,692
Idaho	$ 19,292,594	$ 1,227,690	$ 991,010	$ 2,218,700
Illinois	$ 373,427,577	$ 36,850,000	$ 113,984,100	$ 150,834,100
Indiana	$ 100,955,111	$ 10,497,860	$ 3,090,614	$ 13,588,474
Iowa	$ 48,943,181	$ 4,216,122	$ 11,201,590	$ 15,417,712
Kansas	$ 53,199,570	$ 7,003,065	$ 8,644,266	$ 15,647,331
Kentucky	$ 138,343,659	$ 6,913,552	$ 41,763,490	$ 48,677,042
Louisiana	$ 114,081,498	$ 4,123,191	$ 3,387,816	$ 7,511,007
Maine	$ 28,182,997	$ 1,528,181	$ 3,503,228	$ 5,031,409
Maryland	$ 113,787,200	$ 22,821,634	$ 19,738,559	$ 42,560,193
Massachusetts	$ 212,032,851	$ 34,988,495	$ 79,833,152	$ 114,821,647
Michigan	$ 247,734,231	$ 24,420,170	$ 32,917,700	$ 57,337,870
Minnesota	$ 116,716,395	$ 17,648,503	$ 34,793,028	$ 52,441,531
Mississippi	$ 110,027,982	$ 1,319,900	$ 5,770	$ 1,325,670
Missouri	$ 107,979,505	$ 13,214,653	$ 5,877,421	$ 19,092,074
Montana	$ 15,730,575	$ 1,363,781	$ 210,100	$ 1,573,881
Nebraska	$ 42,786,606	$ 6,565,774	$ 6,974,102	$ 13,539,876
Nevada	$ 16,420,136	$ 2,449,142	$ 1,505,761	$ 3,954,903
New Hampshire	$ 21,532,240	$ 4,160,509	$ 190,418	$ 4,350,926
New Jersey	$ 182,044,721	$ 18,962,965	$ 48,158,580	$ 67,121,545
New Mexico	$ 45,484,860	$ 2,763,025	$ 4,463,680	$ 7,226,705
New York	$ 624,895,920	$ 78,632,380	$ 216,526,102	$ 295,158,482

1. Data from Children's Defense Fund Report: *State-by-State Investments in Child Care and Early Education*, 1994, by Gina Adams and Nicole Oxendine Poersch.

2. Some states included local funds in their totals.

3. Children's Defense Fund (CDF) reported actual matching levels reported by states where possible. However, in most cases, CDF estimated the state match based on federal matching rates (using the federal fiscal year). In some cases, this may introduce slight errors due to differences between state and federal fiscal years.

4. Some states included local funds in their totals.

State-by-State Funding for Child Care and Early Education Services[1]

(State Fiscal Year 1994)

State Name	Total state and federal funds (Includes federal and state child care funds, federal and state Head Start funds and state prekindergarten funds)[2]	State funds appropriated to match federal child care funds (Includes state share of IVA Funds—At-Risk, TCC and AFDC-related IVA child care funds)[3]	State funds appropriated independent of federal matching requirements for child care[4]	Total state funds appropriated
North Carolina	$ 209,804,597	$ 30,355,210	$ 31,013,230	$ 61,368,440
North Dakota	$ 12,527,352	$ 1,171,674		$ 984,223
Ohio	$ 325,724,084	$ 35,257,020	$ 61,269,773	$ 96,526,793
Oklahoma	$ 112,442,287	$ 9,309,931	$ 24,398,592	$ 33,708,523
Oregon	$ 77,200,406	$ 9,736,104	$ 17,573,723	$ 27,309,827
Pennsylvania	$ 309,105,979	$ 44,745,580	$ 26,063,420	$ 70,809,000
Rhode Island	$ 24,393,369	$ 4,376,214	$ 2,191,139	$ 6,567,353
South Carolina	$ 89,058,635	$ 3,269,665	$ 16,883,553	$ 20,153,218
South Dakota	$ 13,196,263	$ 1,014,409		$ 728,229
Tennessee	$ 120,487,965	$ 13,923,916	$ 876,999	$ 14,800,915
Texas	$ 500,601,875	$ 34,351,268	$ 103,409,015	$ 137,760,283
Utah	$ 46,873,549	$ 1,652,218	$ 15,900,441	$ 17,552,659
Vermont	$ 21,090,162	$ 2,703,440	$ 6,341,246	$ 9,044,686
Virginia	$ 91,749,641	$ 19,499,655	$ 60,991	$ 19,560,646
Washington	$ 161,870,510	$ 31,306,329	$ 31,555,559	$ 62,861,888
West Virginia	$ 50,040,999	$ 2,270,613	$ 3,174,982	$ 5,445,595
Wisconsin	$ 106,276,295	$ 13,143,670	$ 15,002,117	$ 28,145,787
Wyoming	$ 14,168,077	$ 1,200,229	$ 104,449	$ 1,304,678
TOTAL	$7,115,859,550	$ 763,540,412	$1,590,690,042	$2,353,756,823

STATE INVESTMENTS IN PREKINDERGARTEN AND FAMILY EDUCATION PROGRAMS

	Annual Budget FY88 (from *The Public School Early Childhood Study: State Survey*. Bank Street College. 1989)	**Annual Budget FY92** (principally from *First Steps. Promising Futures: State Prekindergarten Initiatives in the Early 1990s*. Children's Defense Fund. 1994)	**Percentage of Change (1988-1992)** An increase to keep pace with inflation over this period would amount to about 20%.
Alaska			
Prekindergarten	$197,000	(incl. in Head Start)	
Head Start	$2.7 million	$ 5.6 million	93%
Arizona			
Prekindergarten	nonexistent	$2.0 million	
Arkansas			
Prekindergarten	nonexistent	$5.0 million	
California			
Prekindergarten	$35.5 million	$83.3 million	135%
Colorado			
Prekindergarten	nonexistent	$8.9 million	
Connecticut			
Head Start	$400,000	$400,000	0%
Delaware			
Prekindergarten	$189,000	terminated	
District of Columbia			
Prekindergarten	$12.2 million	$11.5 million	
Head Start	$1.1 million	$1.6 million	-2%
Florida			
Prekindergarten	$1.6 million	$69.0 million	
Chapter I Migrant Prek.	$2.9 million	$3.0 million	
Head Start	nonexistent	$6.0 million	1,633%
Georgia			
Prekindergarten	nonexistent	$37.1 million (FY94)	
Hawaii			
Head Start	$291,790	$529,700	82%
Illinois			
Prekindergarten	$12.7 million	$72 million	
Head Start	nonexistent	$500,000	471%
Iowa			
Prekindergarten	nonexistent	$4.9 million	
Kentucky			
Educ. Improvement Grants	$232,123	terminated	
Parent & Child Educ.	$900,000	$2.0 million	
KERA	nonexistent	$30.6 million	2,780%
Louisiana			
Prekindergarten	$1.8 million	$3.5 million	94%
Maine			
ECE Grants	$27,730	$150,000	
Head Start	$1.9 million	$2.4 million	32%
Maryland			
Prekindergarten	$3.3 million	$8.9 million	170%
Massachusetts			
Prekindergarten	$10.3 million	$7.5 million	
Head Start	$4.5 million	$6.0 million	-8%

State Investments in Prekindergarten and Family Education Programs

	Annual Budget FY88 (from *The Public School Early Childhood Study: State Survey*, Bank Street College, 1989)	Annual Budget FY92 (principally from *First Steps, Promising Futures: State Prekindergarten Initiatives in the Early 1990s*, Children's Defense Fund, 1994)	Percentage of Change (1988-1992) An increase to keep pace with inflation over this period would amount to about 20%.
Michigan			
Prekindergarten Grants	$300,000	$5.3 million	
Prek. Educ. Aid Formula	$2.0 million	$27.5 million	1,326%
Minnesota			
Head Start	$2.0 million	$6.5 million	
Early Childhood Family Ed.	$8.8 million	$13.0 million	81%
Missouri			
Parents As Teachers	$12.0 million	$18.9 million (FY94)	58%
New Hampshire			
Head Start	nonexistent	$201,000	
New Jersey			
Prek. Educ. Aid Formula	$6.9 million	$9.5 million	
Prekindergarten Grants	$1.0 million	$1.3 million	
Urban Prekindergarten	nonexistent	$2.5 million	68%
New York			
Prekindergarten	$27.0 million	$52.2 million	93%
Ohio			
Prekindergarten	$18,000	$13.4 million	
Head Start	nonexistent	$19.9 million	185,000%
Oklahoma			
Prekindergarten	$832,275	$2.1 million	152%
Oregon			
Prekindergarten	$1.1 million	$8.2 million	645%
Pennsylvania			
Prek. Educ. Aid Formula	$1.7 million	$5.4 million (FY95)	218%
Rhode Island			
Head Start	$365,000	$1.96 million	
Special ECE Projects	nonexistent	$200,000	492%
South Carolina			
Prekindergarten	$10.9 million	$15.2 million	39%
Texas[1]			
Prekindergarten Grants	$46.2 million		
Prek. Educ. Aid Formula		$144.0 million	212%
Vermont			
Prekindergarten Grants	$500,000	$1.4 million	180%
Washington			
Prekindergarten	$4.7 million	$17.2 million	
Head Start	$660,000	$530,763	231%
West Virginia			
Prekindergarten	$258,574	$1.04 million	302%
Wisconsin			
Prek. Educ. Aid Formula	$4.3 million	$5.8 million	
Head Start	nonexistent	$2.25 million	87%
Total all states:	$224.3 million	$747.9 million	233%

1. In 1990-91, the Prekindergarten Grants program was eliminated and prekindergarten funding was added to the regular education aid program.

ALLOCATING EXISTING PUBLIC GENERAL REVENUE

Wisconsin Works (W-2)

Description

Wisconsin has recently enacted a new welfare reform initiative (Wisconsin Works, or W-2) that requires all families to work. Cash welfare benefits will be phased out. Families will be provided with assistance in finding employment or with public employment opportunities as well as child care and health care benefits. The state executive branch took leadership in winning legislative support for the premise that, in order for W-2 to succeed, child care and health care must be available to all low-income families who need them to work. To this end, Wisconsin will now make child care assistance available to all eligible families who meet the income and asset tests and who need child care subsidies in order to work, regardless of whether or not they are on welfare. Child care expenditures are expected to triple in the next three years. In addition to new state funds, funds from the welfare system will be "redeployed" to the child care system to help pay for this increased demand for subsidized child care.

When Established

W-2 was signed into law on April 25, 1996, and takes effect statewide in the fall of 1997.

Amount Generated Annually

W-2 redeploys revenue that was previously used for welfare benefits and uses it—along with other state and federal funds—to help support the cost of child care. The annual allocation for child care subsidies increased from $48 million in 1996-97 to $158 million in 1997-98, and is projected to increase to $180 million in 1998-99.

In addition, Wisconsin has recently secured a one-time federal allocation of $75 million as a result of savings from previous welfare-related waivers. Of these funds, $25 million will be used to support efforts to expand the supply and improve the quality of child care (see page 57 for a description of Wisconsin's quality improvement efforts); the remaining $50 million will be used for child care subsidies.

Services Funded

Subsidies to assist low-income, employed families in paying for child care.

How Funds Distributed

Vouchers are the primary method used to pay for subsidized child care. Local W-2 agencies determine eligibility and the family chooses a child care center or home. The county department of social services pays a percentage of the price of care (based on family size, income and a reimbursement ceiling) directly to the child care provider. The family pays the remaining cost.

Population Served

Child care subsidies will be available to families with incomes below 165 percent of the federal poverty level ($21,420 for a family of three in 1996) regardless of whether or not they have any current or prior connection to welfare.

Strategic Considerations

W-2 has been a very controversial initiative. Proponents argue that it is essential to end "the automatic welfare check" and replace it with a system—and an economic climate—that will encourage work and support families who work in low-wage jobs by providing subsidies for child care and health care coverage. Critics argue that the program fails to make true commitments to families or services, and that it will leave many families poorer than they are under the current welfare system. While W-2 will more than triple the funding available to support child care subsidies, the initiative also will have a dramatic impact on the Wisconsin child care system as a whole. In considering Wisconsin's approach, the following issues should be explored:

- The entire W-2 proposal met with fierce opposition from some children's advocates and welfare rights groups. Concerns about the child care provisions of W-2 focused on two issues: 1) W-2 initially included large increases in parent fees and revised the method of determining parent fees so that fees were based on a percentage of the price of the child care (thereby encouraging families to use lower-cost, provisionally certified care). 2) W-2 revised child care provider certification requirements to allow (lower-cost) "provisionally approved" family child care providers to serve children without meeting a training requirement.

- The state legislature added $25 million to the child care portions of W-2 in order to make parent fees more affordable for families with incomes near the poverty level. But co-payments for many families—especially those with more than one child in care—remained very high when W-2 took effect on August 1, 1996. However, when parents who currently receive subsidized child care received notice that their fees would increase so dramatically, they flooded the state legislature and the governor's office with phone calls and letters. A few days later, the governor suspended the W-2 co-payment policy. An advisory panel was established to review the co-payment policy and recommend revisions. The panel recommended that no family pay more than 16 percent of gross income for child care, regardless of the type of care they choose. A new fee policy, based on the panel's recommendations, was approved in December, 1996.
- Critics argue that the commitment to making child care universally available is weak because families are no longer entitled to child care assistance. Proponents argue that the state has allocated enough money to cover child care for all eligible families.
- W-2 creates a single, coherent funding structure for child care funds to replace the current, fragmented child care subsidy system.

Other Sites With Similar Strategy

Rhode Island and Vermont have established income-based child care entitlements.

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ALLOCATING EXISTING PUBLIC GENERAL REVENUE

Child Care Quality Improvement Initiatives (Wisconsin)

Description

In addition to allocating state and federal funds to help low-income families pay for child care, Wisconsin allocates state funds to supplement the federal Head Start program and to help strengthen the child care system as a whole. Grants are made available for:

- child care program start-up and expansion;
- child care resource and referral services;
- quality improvement grants (including program accreditation, staff training, and improved staff compensation and benefits); and
- technical assistance to child care providers (including an early childhood credentialing system, accreditation promotion and information, mentor teacher training, management assistance and on-site technical assistance).

Additionally, Wisconsin has funded or sponsored a number of initiatives aimed at improving training and career development opportunities for practitioners who work in child care and early education. In 1985, the Wisconsin Child Care Improvement Project (WCCIP) was established and funded by the state. WCCIP, which is administered by a consortium of private-sector organizations, provides pre-licensing consultation and training. In 1990, Wisconsin's three child care provider associations came together to articulate a common body of knowledge for early childhood practitioners. This group then created—and the state funded—a system (which is called The Registry) to verify that individuals meet jointly established training requirements and maintain information on practitioners' professional accomplishments beyond the required minimum. More recently, these groups have come together and joined with others in the Wisconsin Early Childhood Professional Development Initiative. The initiative has sponsored a number of conferences and training institutes, worked with institutions of higher education to help secure college credit for child care training, and provided leadership for training efforts funded under the quality improvement and technical assistance grant programs.

When Established

Wisconsin began to fund child care resource and referral (CCR&R) services in 1987. State Head Start funds were first allocated in 1990. Start-up and expansion, quality improvement and technical assistance grants were established in 1991.

Amount Generated Annually

In state fiscal year 1994-95, $4.95 million in state funds was used to supplement the federal Head Start program. Additionally, state and federal funds were allocated for the following services: $1 million for CCR&R; $600,000 for start-up and expansion; $1.47 million for quality improvement grants; and $450,000 for technical assistance and training grants (including funds to help support program accreditation, on-site mentoring, management assistance, The Registry and the WCCIP initiative described earlier).

Services Funded

Full-day Head Start, start-up and expansion grants, professional development, program accreditation, CCR&R services and technical assistance.

How Funds Distributed

Head Start supplemental funds, as well as all other quality improvement, technical assistance and indirect service funds, are awarded as grants. Contracts are negotiated between various state agencies and the organization receiving the grant. Small start-up and expansion grants are administered by CCR&R agencies under contracts with the state.

Population Served

By federal regulation, at least 80 percent of the children enrolled in Head Start must have family incomes at or below the poverty level (approximately $13,000 for a family of three in 1996). Quality improvement funds are available to nonprofit and proprietary child care programs that serve families at all income levels. Start-up and expansion grants are currently available in 20 high-need counties.

Strategic Considerations

Wisconsin has for many years used state funds to help build and support an early childhood care and education system. State regulatory requirements are among the highest in the nation, and state funds have been used to help increase the quality of care throughout the system. This commitment to high-quality early childhood care and education has been nurtured by a number of factors, including:

- The Wisconsin child care community has provided consistent and committed leadership. The two largest child care resource and referral agencies and the Wisconsin Early Childhood Association have provided stable leadership since the early 1970s. Led by these groups, the Wisconsin Women's Network established a Child Care Task Force in the mid-seventies, and this task force has been able to tap broader constituencies, such as the Wisconsin Nurses Association, the National Organization for Women and others.
- Wisconsin has public employees who understand child care and are committed to building a system of high-quality child care services. These employees are not just concentrated in the child care division of the social services department, but may be found in a variety of state offices and agencies. In July 1996, for example, a key staff person from the budget and management division was able to secure a one-time federal allocation of $75 million in "waiver savings" (from previous welfare-related federal waivers) and ensure that these new funds would be allocated to child care. Of these funds, $25 million will be used to expand the supply and improve the quality of child care. The remaining $50 million will be spent for child care subsidies.
- Wisconsin has been able to forge effective, action-oriented partnerships between child care advocacy leadership and state government. For example, shortly after the federal Child Care and Development Block Grant (CCDBG) was passed, groups inside and outside of government began to develop and share plans for its implementation. As a result, a consensus plan was developed easily. Meanwhile, advocacy groups were working on educating state legislators and grooming strong sponsorship. While some of these relationships have become strained during the more recent battles over welfare reform, Wisconsin's strong history of public-private partnerships in child care policy development has helped to keep child care needs and concerns in the forefront.
- Funding for child care quality improvement has not diminished as a result of the W-2 welfare reform initiative, even though significant new revenue were needed to expand subsidized child care. It is not clear, however, how Wisconsin's current or future child care quality improvement efforts will be linked to W-2.

Other Sites With Similar Strategy

A number of states allocate state and/or federal child care funds to support quality improvement initiatives such as provider training and technical assistance, child care resource and referral services, start-up and expansion funds, and so forth. Arizona, Delaware, Indiana and Kentucky make grants available to child care providers to support the cost of accreditation or other quality improvement efforts. Wisconsin is unique, however, in linking quality improvement grants to staff recruitment and retention, and making these funds available to child care providers on an ongoing basis.

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ALLOCATING EXISTING PUBLIC GENERAL REVENUE

Early Childhood/Youth Crime Prevention and Intervention (Colorado)

Description
The Early Childhood/Youth Crime Prevention and Intervention (EC/YCPI) grant program makes state funds available to community-based crime and violence prevention or intervention services that target children, youth and their families. At least 20 percent of these funds have been designated for children less than nine years of age.

When Established
EC/YCPI was first established in 1994. The 20 percent set-aside for early childhood initiatives was established in 1996.

Amount Generated Annually
A total of $7 million has been appropriated for EC/YCPI in state fiscal year 1996-97. At least $1.4 million of this (the 20 percent set-aside) will be spent for early childhood initiatives.

Services Funded
EC/YCPI funds are intended to help expand existing programs or to start new ones. The programs must demonstrate the ability to reduce risk factors for later crime or promote protective interventions. Some examples might include efforts that seek to strengthen the bond with parents or other adults, promote healthy belief systems and clear standards of behavior, improve family literacy and school success, and so forth. The types of early childhood initiatives that have been funded include school-age child care start-up grants, a nurse (shared by several early childhood programs) to conduct home visiting, a parent mentoring program, a summer reading program in the public schools and training for staff who work with children who are at risk for later crime or are exposed to violence.

How Funds Distributed
Applications are reviewed by a nine-member board (who are appointed by the governor and the legislature). Awards are recommended by the board and approved by the governor. The Colorado Department of Local Affairs, Community Partnership Office, administers contracts and monitors compliance.

Population Served
The initiative is designed to serve youths, and their families, who are at risk of crime and violence. There are no income guidelines. Rather, funding requests are expected to compete with one another on the basis of their ability to effectively address risk and protective factors in communities of high need.

Strategic Considerations
In response to growing juvenile violence, the governor proposed several crime prevention strategies as well as a host of detention strategies. Several key members of the legislature agreed with him and were convinced that early intervention (such as Head Start, school-age child care, parenting initiatives, home visiting and other community service strategies) could make a difference. In considering this strategy, the following issues should be explored:

- The 20 percent set-aside sends a clear message to child care and early education organizations that they can play an important role in crime prevention, and it encourages them to develop new intervention strategies and community partnerships.
- Colorado has found that securing funds for early education and intervention as a crime prevention strategy is difficult. EC/YCPI is still only a small grants program, and it was established due to the leadership of a few people.
- Data that demonstrate the effectiveness of the strategy are needed. To this end, the state legislature set aside 1 percent ($70,000) of the EC/YCPI appropriation to begin a longitudinal evaluation of the program.
- This initiative directs help to improve program quality and offer important supports to parents; it is not designed to help low-income families pay for early care and education.
- The initiative has been very visible in several communities and resulted in a group of teens who are able to speak directly to legislators about the program's effectiveness.

Other Sites With Similar Strategy
None known.

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ALLOCATING EXISTING PUBLIC GENERAL REVENUE

Prekindergarten Program (Texas)

Description
Texas established its prekindergarten program as part of an education reform package recommended to the legislature by the Select Committee on Public Education appointed by the governor in 1983. Like most states, Texas established a categorical, part-day, school-year prekindergarten program targeted for at-risk four-year-olds. However, Texas is the only state that requires school districts to provide a prekindergarten program (if at least 15 eligible children reside in the district). When Texas shifted prekindergarten funding from categorical education funding to regular school aid funding, Texas joined four other states whose prekindergarten programs are funded through regular school aid formulas.

When Established
House Bill 72, considered in a special legislative session called by the governor, was passed and signed into law in July 1984, with implementation slated for the 1985-86 school year.

Amount Generated Annually
In the 1994-95 school year, state funds for prekindergarten totaled $101,139,600, supporting 722 districts serving 110,212 children.

The state appropriation for the first year of the prekindergarten program (1985-86) was $30 million to serve about 35,000 children in 405 of the state's more than 1,000 school districts. The original law capped the state appropriation at $50 million; this level was nearly reached in 1987-88 with a state appropriation of $46.2 million.

By the 1990-91 school year, the legislature had eliminated the state budget line item for prekindergarten and moved the prekindergarten funding for local districts into the regular state education aid funding program. (Regular education aid is called the Foundation School Program in Texas.) State funds expended for prekindergarten for 1990-91 were $54.9 million. Total state expenditures for prekindergarten reached a high of $115 million in 1991-92, supporting prekindergarten programs for 107,944 children.

Services Funded
House Bill 72 authorized any school district to provide prekindergarten classes, but required school districts that have more than 15 educationally disadvantaged four-year-olds within the district to provide a program. "Educationally disadvantaged" is defined as either low-income or a nonspeaker of English.

The Texas prekindergarten program is similar to most other states' prekindergarten programs that were created in the wave of early-1980s education reform. The prekindergarten program can be operated only by school districts and within public school facilities, although subcontracting is permitted and coordination with other early childhood programs such as Head Start is encouraged. (As in most states, practically no subcontracting occurs.) Prekindergarten programs must meet at least three hours a day for the full school year, adhere to the state's essential elements curriculum (which focuses primarily on cognitive and language development), and be taught by a certified teacher. Class size is limited to 22 children with one teacher. Other classroom personnel are not required, although some districts lower the staff:child ratio with aides and volunteers.

How Funds Distributed
For the first three years, a fixed allocation for prekindergarten was a line item in the state education budget. The funds were distributed among participating districts based on a funding formula that favored poorer districts. The original law required that a local district provide a cash match of up to one-third of the cost of the prekindergarten program. In practice, districts may be providing more than a third (data are not available).

When the funding method was changed to the Foundation School Program, each district claimed reimbursement for its prekindergarten program based on the average daily attendance of children enrolled in prekindergarten. Prekindergarten pupils count as one-half of a pupil in kindergarten and the grades beyond. Since Foundation funding per pupil fluctuates from year to year, the reimbursement per prekindergarten pupil also varies. For the 1994-95 school year, per pupil aid was $2,263, and this amount rose to $2,444 for the 1995-96 school year. Thus, state aid per prekindergartner was $1,131 for 1994-95 and $1,222 for 1995-96.

Population Served
The prekindergarten program is designed to serve children at "educational disadvantage"—defined as being unable to speak or comprehend English or having a family income low enough to qualify for free or reduced lunch under the school meals program of the U.S. Department of Agriculture (185 percent of the poverty level).

In 1991, the state board of education permitted districts to serve three-year-olds who met the language or low-income criteria. The board also ruled that if all eligible children in a district are served, the district may extend its prekindergarten program to other children, both three- and four-year-olds. The number of three-year-olds served fluctuates; 9,000 were served in 1992-93, but only 4,300 were served in 1994-95.

Strategic Considerations
- In theory, the change from a direct prekindergarten allocation to including prekindergarten in regular education reimbursement aid allows the program to grow at the rate local districts are able to provide funds, rather than being limited by a specific annual state budget allocation.
- In actuality, total state expenditures seemed to have peaked in 1991-92 (the school year after the change from line-item allocation to regular aid) and declined slightly in years thereafter. There are several possible explanations for the apparent decline:
  1) It is possible that total expenditures (considering state and local funding combined) may not have decreased; the costs may have shifted from the state to local districts.
  2) The decrease in state funds may be related to moving from the former prekindergarten allocation system, which may have provided higher levels of support for poor districts than the regular education aid funding formula does—although both funding schemes take account of district wealth.
  3) Perhaps districts became more cautious in expanding their prekindergarten programs because reimbursement from regular education aid Foundation funding is less predictable than the annual line-item allocation.
  4) Or there may be some "natural" limit on prekindergarten expenditures related to reaching a saturation point with a part-day, school-year-only program that serves a target population very

similar to that of Head Start. That is, all the available low-income four-year-olds whose families' work schedules allow them to enroll their children in a part-day program are being served.

Other Sites With Similar Strategy
Four states (Maine, New Jersey, Pennsylvania and Wisconsin) and the District of Columbia fund prekindergarten through the regular state education aid formula. Unlike Texas, which continues to target its prekindergarten program, these other states provide publicly funded prekindergarten classes for four-year-olds with no eligibility criteria except age.

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ALLOCATING EXISTING PUBLIC GENERAL REVENUE

Families and Children First (Ohio)

Description
The Families and Children First (F&CF) Initiative is a multifaceted, government-led approach to reforming Ohio's education, family services and social services delivery systems on the state and local levels. As the governor said in announcing F&CF, "The best hope for the future is the well-being of Ohio's families."[1]

Inspired in part by leaders who had participated on the Ohio team at the National Governors' Association Policy Academy and in the Ohio Head Start–State Collaboration project, a broad-based, statewide, inclusive strategic planning process established a vision for Ohio's families with goals and objectives. Within F&CF's six overall goals, effort has initially targeted three: health, child development and education. The three objectives to achieve these goals focus on healthy births and the well-being of young children and families during the early childhood years.

The child development objective is to ensure that more young Ohio children will have access to high-quality preschool and child care programs by the year 2000, through:

- expansion of early intervention services for children birth through five,
- increased availability of Head Start for three- and four-year-olds,
- a larger number of children receiving child care subsidies,
- an increased number of elementary schools with multi-age primary programs and
- an increased number of nationally accredited child care and preschool programs.

By executive order, the governor established the goals of F&CF and a set of principles for responsive, family-focused, coordinated systemic reform of education and human services; ordered all state agencies and departments serving children to examine their services, programs and policies to meet F&CF goals and systemic reform principles; and ordered them to

1. Ohio Families and Children First Initiative. 1992. Vision Statement, page 2. Ohio Families and Children First Initiative Briefing Book. Columbus, OH: Office of the Governor.

develop outcome-oriented indicators to meet the goals and objectives of F&CF. The order created the F&CF Cabinet Council, composed of the governor and the directors of eight state departments and agencies, to make policy decisions on issues affecting families and their children. The Cabinet Council serves as the central coordinating and advisory body for all children and family policy (consolidating several former advisory bodies and collaborative projects). It is responsible for reviewing and monitoring implementation of F&CF in state agencies, facilitating collaboration among state agencies and between state and local agencies, and promoting and facilitating local collaboration.

When Established

The underlying concept of commitment to families and children that is the foundation for the F&CF Initiative was introduced in the governor's state of the state address in March 1991. This was followed by an executive order in August 1992 establishing the F&CF Cabinet Council. F&CF was codified in legislation in 1994. By 1996, local F&CF councils had been established in all of Ohio's 88 counties.

Amount Generated Annually

For the state's 1995 fiscal year, just over $195 million in state general revenue funds were appropriated for child care and preschool.

Department of Education	
Public preschool	$15.3 million
Head Start	68.5 million
Preschool special education	43.8 million
School-age care expansion	.6 million
Department of Human Services	
JOBS and transitional child care subsidies	$34.0 million
Other child care subsidies	25.0 million
JOBS/Head Start child care	6.0 million
Day care licensing	1.9 million

As a result of F&CF, Ohio has been creative and efficient in using its resources, especially in maximizing the drawdown of federal funds requiring state match. For example, private grants the state receives (such as a $25,000 grant from the National Governors' Association for school-readiness) are often routed to the Department of Human Services (DHS) as fiscal agent so that federal matching can occur when appropriate, thus potentially tripling the value of a grant. The $6 million for JOBS/Head Start is a pool of funds targeted to expand the number of full-day, full-year slots in Head Start programs for JOBS-eligible clients.

In addition, the state general revenue budget also includes a line item for F&CF, which provides for incentive funds to support local F&CF councils. Each county council is allocated $17,000 from this pool. The Department of Education (DOE) is the fiscal agent for these funds.

The F&CF service delivery system objectives directed state agencies to work together to increase the resources (federal, state and local) allocated for preventive and early intervention services to families and children from birth to age eight, and to align state budget requests to reach F&CF goals. Thus, the two largest state agencies—Education and Human Services—have allocated increasing proportions of their budgets toward young children as the F&CF initiative has evolved.

Services Funded

State funds are directed toward achieving F&CF objectives relating to child development and early education. These funds support direct services to children as well as the costs for start-up of new programs and quality improvements such as staff development. Some funds are more specifically directed. For example, in awarding grants for state-funded Head Start, the DOE's priority is expansion to serve additional children and for full-day, full-year operation. State funds also support the coordination necessary for systemic reform, such as the funds for local F&CF councils and for the central staff of F&CF.

How Funds Distributed

State funds are distributed through the common government mechanisms—grants, contracts and vouchers—and administered by state agencies. Generally, requests for applications for funds are released by the department whose budget contains the funds. The applicants eligible for some funds are restricted. For example, most Department of Education funds are available only to school districts or county boards of education, with the exception of Head Start funds for which only current Head Start grantees (i.e., those receiving either federal or state Head Start funds) are eligible. New grantees were added as part of earlier expansions and in the state fiscal year 1996 budget.

Child care. Ohio has consolidated all federal child care funds and state child care appropriations into one program, which is then allocated to the counties to administer. Counties then contract with child care providers. To receive public funds, a center must be licensed and family child care or home-based providers must be certified. Families are initially eligible for subsidy if their income is below 150 percent of poverty; they remain eligible until their income exceeds 185 percent of poverty. Eligible families choose whichever licensed or certified provider they wish, and the county pays the provider directly. Counties can issue vouchers or use limited service contracts (essentially a price agreement). Each county sets its own initial and continuing eligibility limits within the overall 150 percent/185 percent state limits. Families pay a sliding-scale fee ranging from $15 per month for a family at poverty or below and set at 10 percent of income above poverty.

Efficiency. To improve coordination and promote efficiency in service delivery, in 1994, all applicants for DOE early childhood funds were required to have a Unified Services Provider Plan (USPP). The USPP promotes county-wide planning and implementation of comprehensive child development services by requiring an applicant to participate in developing a plan based on documented needs and resources for all children in the county. The regional child care resource and referral agency facilitates the meeting to initiate the plan, inviting at a minimum all recipients of DOE funds for Head Start, public preschool and preschool special education.

The plan must include data on the number of children three to five years old currently served in any preschool or child care program and show how the proposed services fit in. The plan requires participants to develop joint recruitment for all preschool services; show how comprehensive services and smooth transitions from preschool into school will be assured; and describe the status of communication among preschool service providers, cross-training of staff and parents, and plans for service delivery improvement. The document must be signed by all participating agencies and attached to their application.

By 1996, the DOE and the state Department of Health agreed to consolidate the USPP and the plan required of applicants for early intervention services into one plan. In 1996-97, 12 counties are piloting a consolidated plan for what had been 12 separate plans and applications, and for funding. The process will be implemented for state fiscal year 1997-98.

Population Served

The ultimate goal of F&CF is universal access to appropriate services for all families with young children. For example, a new parent education support program modeled after the state of Hawaii's Healthy Start is designed to be universal. Universal access can be achieved among multiple programs with various limits on access. Head Start programs are targeted to families with incomes below the poverty level. Child care funds may serve families up to 185 percent of poverty. Preschool special education and early intervention services are provided without regard to income.

Strategic Considerations

- To succeed at systemic reform, government must make a long-term commitment of both resources and staff to effect the deep changes in attitudes and organizational culture that lead to changes in policies and practices.
- It is often easier to redirect policies and resources toward specific objectives through state budget authorizations than via stand-alone legislation.
- Human Services, in Ohio, operates as a state-supervised, county-administered system. Education is administered by more than 600 local school districts, 88 county boards of education and numerous joint vocational districts with guidance and support from the state Department of Education. Mutual trust and effective communication among all parties has to be developed before multiple state agencies' budgets and activities can be coordinated toward a common goal.
- Maintaining the F&CF Cabinet Council as the one policy coordination body is essential to a coordinated, focused effort like F&CF.

Other Sites With Similar Strategy
No other state has both made significant increases in early childhood funding and demonstrated sustained commitment to long-term systemic reform of its education and human services systems, as Ohio has done. A number of states are engaged in systemic reform, and other states have made significant allocations to child care. North Carolina's Smart Start, profiled on page 91, is an example of increased state resources for early childhood; Colorado has restructured state government to better support early childhood development. Wisconsin's redeployment to child care of savings from eliminating welfare cash assistance is profiled on page 55.

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ALLOCATING EXISTING PUBLIC GENERAL REVENUE

The A+ Program (Hawaii)

Description
The A+ Program provides after-school child care for 26,642 children enrolled in 175 Hawaii public elementary schools in kindergarten through sixth grade.

When Established
The program was established in 1990.

Amount Generated Annually
In state fiscal year 1994, $16,950,634 was appropriated for the program.

Services Funded
After-school child care (including homework assistance, enrichment activities and supervised recreational activities) is provided after school until 5:30 p.m. during the regular school year. The A+ Program is not open when school is closed for vacation, holidays, during teacher institutes or on days when school is open only half a day. The 49 A+ programs operated privately offer extended hours of operation at no additional charge and child care on days when school is closed for an additional fee.

How Funds Distributed
State funds are allocated to local schools. In cases where the school selects a private provider to operate the program, the state Department of Education (DOE) negotiates a contract with the private entity. DOE reimburses private contractors monthly, based on the enrollment for the first day of each month. Families who are eligible for the free lunch program pay a monthly fee of $6 per child, and those eligible for reduced lunch pay $9 per child. All other families pay a monthly fee of $55 per child. Discounts are available for families with more than one child in the program.[1] In sites where schools operate the program directly, parent fees are deposited into the state's general fund. Parent fees collected by the schools are not tied to their A+ budget and have no direct bearing on the program.

1. Sibling discounts for families eligible for free and reduced lunch are deducted in $1 increments (for two children the monthly fee is $8 per child, for three children the fee is $7 per child, and so forth). Sibling discounts for all other families are deducted in $5 increments (for two children the monthly fee is $50 per child, for three children the fee is $45 per child, and so forth).

Population Served
Children may participate if they reside with: two parents, both of whom are employed or in a job training or education program during the hours of A+ operation; a single parent who is employed or in a job training or education program during the hours of A+ operation; or a parent who is employed in the A+ Program.

Strategic Considerations
A+ was established by the administration of former Governor John Waihee prior to his final term in office. The initiative was led by the former Lieutenant Governor Ben Cayetano (who succeeded Governor Waihee in 1994 and has continued to provide strong leadership and financial support for the program). In considering this strategy, the following issues should be explored:

- A+ was initially established without the approval of the legislature. While this move may have initially angered some members of the legislature, it allowed rapid program start-up. Strong public support made it easier to gain legislative approval for the program the following year.
- A+ has continued to receive strong public support. Focus groups and surveys indicate high parents satisfaction.
- Despite rapid growth, the A+ Program appears to be running well and has reached most of the children it was designed to serve.
- The decision to house A+ in the public school system was a pragmatic one and provided the infrastructure necessary to establish the program quickly. But school sponsorship has also posed some barriers. For example, allowing the A+ Program to follow a school calendar and remain closed during school holidays and vacations places additional stress on working parents, who must scramble for alternative child care. In contrast, private providers appear to be willing and ready to provide care year-round.
- Staff development activities are limited. Site coordinators, principals, teachers and parents—as well as the evaluators of the program—have raised concerns that A+ staff need more in-service training.
- The lack of separate space for the A+ Program has been a significant problem. The cafeteria/auditorium and playground are the spaces most frequently used for the program. Site visits conducted as part of the evaluation revealed that, even in very well managed or small sites, noise levels are not conducive to doing homework or engaging in quiet group activities. Access to the playground also was limited in some sites. A lack of adequate storage facilities is another problem.
- Concerns have been raised that the parent fee structure is not realistic and that some parents could afford higher fees.
- It has been suggested that the DOE sites establish a special fund into which parent fees are deposited rather than returning fees to the general fund. Proponents of this approach believe that it would encourage programs to strengthen fee collection. Opponents argue that the policy would require additional record keeping and paperwork.
- Reimbursement to contract providers is based on a maximum cost of $70 per child (minus the co-payment collected from parents) and has not increased since the program began. DOE has generated additional revenue for the A+ Program by increasing the fees charged to parents. (Monthly fees were $25 per child when the program began.) For private providers, however, the fee increases reduce reimbursement from DOE and do not result in increased revenue.

Other Sites With Similar Strategy
Hawaii is the only state that makes after-school child care universally available to all children enrolled in public elementary schools and partially subsidizes its cost to parents.

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Financing Child Care in the Private Sector

Financing Child Care in the Private Sector

Employers and unions

In the past five years, major corporations have invested more than $350 million in child care initiatives.[1] These funds have been used primarily to help start new child care centers, recruit new family child care homes and improve the quality of child care services. (See the profiles of the national American Business Collaborate initiative and Houston's Corporate H.A.N.D.S. in this section for examples of this approach.) Additionally, many employers have established dependent care assistance plans that help to reduce the cost of child care by reducing employees' tax burden (see Tax Credits, Deductions and Exemptions, on page 35, for a further discussion of this strategy) or expanded the availability of flexible work arrangements such as flextime, part-time, job sharing and telecommuting. But few employers subsidize the recurring weekly cost of child care for their employees.

The Con Agra Child Care Initiative, which is summarized in this section, is a unique departure from these trends. In addition to helping expand the quality and supply of child care, Con Agra pays a portion of the weekly cost of care for each of its employees. The Con Agra approach is based on financial partnerships with community-based Head Start and child care centers. Levi Strauss & Company has developed a strategy for meeting the child care needs of its hourly workers that combines vouchers, child care resource and referral services, and grants to help strengthen the quality and supply of child care services in communities where its employees live and work. Both of these companies employ hourly workers who, in general, do not qualify for government-subsidized child care but who cannot afford to send their children to preschool programs without help in paying for the care.

Florida has recently enacted a new initiative that will offer matching state funds to businesses that employ low-wage workers and are willing to pay a portion of the weekly cost of child care for their employees. The program, which is profiled in the following pages, was passed by the state legislature earlier this year and will be administered by community-based child care resource and referral agencies.

Collectively bargained labor/management child care funds also have been an effective way to help employees pay for child care. Two initiatives—the 1199/Employer Child Care Fund and the Enrichment Grants Program sponsored by the New York State Labor/Management Child Care Advisory Committee—are profiled in this section.

Parents often seek opportunities to be at home with their infants. But no more than 2 percent of employees are paid during maternity leave. Temporary disability insurance (TDI) is a promising approach to provide up to six weeks of paid leave for infant care. Women who are able to add disability benefits to accumulated sick and vacation pay may be able to remain at home with their newborn child for several months. Statewide temporary disability insurance programs now operate in five states and Puerto Rico. The plans are solvent, well-funded and pose a minimal burden on employers and employees. In fact, the TDI program in New Jersey (profiled in this section) has been so successful that the state legislature is considering extending it for family members who must leave employment temporarily to care for a newborn or newly adopted child or a seriously ill family member.

1. Friedman, D. 1995. "Planning With Business Partners to Assist Low-Wage Workers: Let's Talk About It." Speech presented at the Administration for Children and Families Planning Conference for State Child Care Administrators, September 27, 1995, Washington, DC.

Community child care initiatives

Child care is a local issue in many respects. Many communities are engaged in planning for child care, and nearly all encounter financing issues in the process. The community initiatives profiled here represent different approaches to child care financing. In Marin County, community, civic and child care leaders devised a plan to help families pay for child care through a scholarship fund. In San Francisco, a philanthropy is devoting the majority of its resources to improving child care in the city and focusing significant resources on four centers. In Pittsburgh, a diverse group of business leaders, professionals, community representatives and other concerned citizens aims to establish a unified system of early childhood care and education to ensure that low-income communities in Allegheny County and the city of Pittsburgh will have a sufficient number of affordable programs that provide high-quality care and education to low-income children. Local philanthropies initiated each of these efforts to engage the wider community in defining problems and generating solutions.

FINANCING CHILD CARE IN THE PRIVATE SECTOR (Employers and Unions)

The Con Agra Child Care Initiative (Multistate)

Description

Con Agra Refrigerated Foods has established an employer-supported child care initiative tailored to the needs of workers who earn between $6 and $7 per hour, do shift work and live in rural areas where regulated child care is scarce. To meet the child care needs of its employees, Con Agra has established partnerships with Head Start/child care agencies in three communities and is currently exploring the feasibility of adding a fourth. Con Agra works with an existing nonprofit organization and helps the agency to expand the early childhood programs it currently runs to include full-time child care for children from infancy to school age. The centers are open from 5:00 a.m. to midnight weekdays, and sometimes on Saturday, to accommodate employees from all shifts. Con Agra makes a contribution for initial start-up costs of the centers. The company also pays a portion of the weekly cost of care for each of its employees. In addition, the employee's portion of the cost of care is deducted from their paycheck and placed in a pretax dependent care assistance plan (DCAP).

When Established

The first partnership—which included a Butterball Turkey plant in Huntsville, Arkansas, and the Northwest Arkansas Head Start agency—was launched in 1992, and currently serves 75 children of Con Agra employees as well as children from the surrounding community.

Amount Generated Annually

Con Agra typically makes an initial contribution (from its philanthropic foundation) of between $20,000 and $50,000 to help with start-up costs and, if necessary, will donate land for the child care facility. Additionally, the company spends over $200,000 per year to help subsidize the cost of child care for 155 employees.

Services Funded
One-time grant for capital costs associated with start-up and weekly child care subsidies for employees. Con Agra purchases "slots" in on-site or near-site child care centers, and therefore pays for the care even during times when the slots are vacant. The child care centers serve children of all ages, including school-age children who need care after school and during the summer.

How Funds Distributed
Con Agra conducts focus groups with employees to learn how much they currently pay—and can afford to pay—for child care. These data, along with local market rate survey data, are used to help establish the child care fees paid by employees. (The average fee is $47 per week.) The balance of the weekly child care cost is paid by Con Agra. The company deducts the parent's share of the cost from their pay each week and deposits it in a pretax DCAP. The company combines these payroll deductions with its share of the cost and reimburses the child care program. (The employer's portion of child care costs must be reported as income to the employee but is not taxed by the federal or state government.) The child care centers are run by a board of directors. Con Agra has one seat on the board of each center.

Population Served
The initiative assists Con Agra employees, who typically earn between $6 and $7 per hour and often come from immigrant families.

Strategic Considerations
Con Agra sought to establish a child care initiative that would meet the unique needs of its workforce. This meant that the company needed to become involved in helping to start programs as well as provide operating assistance to keep the programs running. (For example, when child care is needed on Saturdays, the company pays the full cost of opening the child care center for the day.) Partnerships with Head Start agencies—a major early childhood program in rural areas—proved to be the best strategy. In considering this strategy, the following issues should be explored:

- The company has demonstrated that turnover among workers who have children in their child care centers has dropped by 50 percent. The child care centers are also an effective recruiting tool, especially for a company that is growing and "always hiring."
- Even though most of Con Agra's employees owe little in the way of taxes, the DCAP saves them about $3 to $5 per week in child care fees.
- Using a payroll deduction to collect the parent's share of the cost, and reimbursing the child care centers directly, ensures that all child care fees are paid and reduces administrative costs in the center.
- Subsidizing the cost of the work-site centers ensures that Con Agra families have access to quality early childhood care and education programs.
- Even with the subsidy provided by Con Agra, the cost of child care is high for many employees, especially those from families with only one wage earner.
- Some of Con Agra's workforce, especially immigrant families, have been reluctant to send their children to a child care center. They believe that child care should always be provided within the family.
- Con Agra's decision to enter into partnerships with nonprofit agencies involves some risk. Since the company doesn't own and operate the center, it relinquishes control. ("You are only as good as your partner. When the agency is weak, the program is weak.")

Other Sites With Similar Strategy
While many employers have established on-site child care centers and/or sponsor other child care initiatives, few have established initiatives targeted at low-wage workers. (See the October 1995 issue of *Working Mother* magazine for a list of 100 employers that have established child care initiatives.)

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FINANCING CHILD CARE IN THE PRIVATE SECTOR (Employers and Unions)

The Levi Strauss & Company Child Care Initiative (Multistate)

Description
Levi Strauss & Company (LS&CO) employs almost 20,000 hourly workers in more than 35 production facilities located primarily in small towns or rural communities in the United States. Seventy-nine percent of LS&CO employees are female and have children; most are married and living in families with two incomes. To meet the needs of this workforce, LS&CO has developed a child care initiative that includes three components: 1) vouchers to help families pay for child care; 2) child care resource and referral (CCR&R) services to help families find and evaluate care; and 3) a charitable giving program (called the LS&CO Child Care Fund) that provides grants to help improve the quality and expand the supply of child care in communities where LS&CO employees live and work. At present, the San Antonio, Texas, production facility is the only site participating in the voucher and CCR&R programs. The charitable giving program is available in eight communities.

When Established
The program was established in 1991.

Amount Generated Annually
Participating plants spend approximately $70,000 to $100,000 of their annual budget to support the voucher and CCR&R programs. Corporate headquarters spends approximately $600,000 per year on the charitable giving program.

Services Funded
Families receive child care vouchers of up to 50 percent of the price of their child care, capped at $100 per month per child. The vouchers may be used for any form of legal child care that is provided to a child under 13 years of age. Enhanced CCR&R services (including on-site seminars on choosing child care) are also available at the San Antonio facility. The charitable giving program provides funds for training, planning/partnership, infant care, before-/after-school, preschool, summer/vacation, and resource and referral programs.

How Funds Distributed
LS&CO's voucher program is administered by an outside vendor. Employees submit receipts directly to human resources staff at their facility. The vendor prepares monthly checks, which are paid directly to the child care provider, and handles the year-end reporting to the IRS. Because the voucher program is part of the company's dependent care assistance plan, the benefit is nontaxable. The CCR&R service is provided by local agencies via a contract with the local plant facility. The charitable Child Care Fund is managed by the company's Community Affairs department. Grants are provided to local nonprofit child care agencies to expand or improve services in ways that benefit both LS&CO employees and the community. Community Affairs staff provide monitoring and technical assistance to fund grantees.

Population Served
CCR&R services are available to all employees at the LS&CO San Antonio production facility. Income eligibility for the voucher program is graduated by family size, and is capped at approximately $35,000 for a family of eight or more. (Unmarried partners are included in the definition of "family.") Start-up and quality improvement grants under the charitable giving programs are available to all types of nonprofit child care programs, including child care centers, Head Start programs, school-based programs, family child care homes and other child care services located in communities where LS&CO employees live and work.

Strategic Considerations
LS&CO employees are a prime example of families that, in general, do not qualify for government-subsidized child care but cannot afford to send their children to preschool programs without help in paying for the care. The company voucher program has been an important benefit for these families. In considering the LS&CO approach, the following issues should be explored:

- Reimbursement levels make a big difference. When the voucher program was initiated, reimbursement was limited to $50 per month per child. While vouchers at this level were somewhat helpful to families financially, they were not large enough to make a difference in the type of child care selected by families. (With reimbursement levels this low, most families continued to rely on relatives, neighbors and friends.) When reimbursement was raised to $100 per month per child, participation in the program tripled and half of the participating families switched to a center-based preschool program or a regulated family child care home.

- Unlike many other industries, LS&CO does not lease its corporate support for the voucher program on a cost-benefit analysis of employee turnover. In general, turnover at most LS&CO production facilities is quite low. However, the company is finding that new approaches to production and management (such as using computer technology, working in teams and so forth) require a more highly educated and skilled workforce. In order to attract this new workforce, the company needs to provide a competitive benefit package.
- Support for the program is also based on strengthening employee loyalty and commitment. In an era of widespread corporate downsizing, employees know that they are not likely to work for the same company their entire lives. They are, therefore, less likely to feel committed to their employer. As a result, many companies are attempting to develop new social contracts with employees, contracts that help to build worker loyalty through family supports and other "quality of work-life" programs rather than a commitment to lifetime employment.
- While all production facilities have the option of participating in the voucher program, those who elect to participate must allocate funds from their local budget to pay for the program. To date, only one local facility has elected to participate (the San Antonio facility, where the program was piloted and staff saw the results). It is likely that participation would be higher if funds to support the program were allocated from the overall corporate budget rather than from the local production plant budgets.

In addition to the work/family benefits described above, LS&CO has a dependent care assistance plan (which is primarily used by salaried employees at corporate headquarters) and flexible work schedules.

Other Sites With Similar Strategy

While many employers have developed voucher programs and/or enhanced child care resource and referral services and funds to help improve the quality and expand the supply of child care, few have established initiatives targeted at hourly workers with low or moderate incomes. (See the October 1995 issue of *Working Mother* magazine for a list of 100 employers that have established child care initiatives.)

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FINANCING CHILD CARE IN THE PRIVATE SECTOR (Employers and Unions)

The American Business Collaboration for Quality Dependent Care (National)

Description

The American Business Collaboration for Quality Dependent Care (ABC) is a business strategy intended to increase the supply and quality of dependent care services in the U.S. ABC was formed in response to key labor force changes brought about by the increasing number of women and dual-earner families in the labor force and the increasing caregiving responsibilities of employees. Twenty-one major U.S. national and international corporations, called the "Champions," form the core of the collaboration. The collaboration also includes more than 100 regional and local businesses who partner with the Champions in specific initiatives.

The 21 Champion companies are: Aetna Life and Casualty, Allstate Insurance Company, American Express, Amoco, AT&T, Bank of America, Chevron, Citibank, Deloitte & Touche, Eastman Kodak, Exxon, GE Capital Services, Hewlett-Packard, IBM, Johnson & Johnson, Mobil, NYNEX, Price Waterhouse, Texaco, Texas Instruments and Xerox.

When Established

The ABC was originally formed in the fall of 1992. The second phase was launched in the fall of 1995, with dollars committed through 2000.

Amount Generated Annually

From 1992 through 1994, the ABC invested over $27 million in a range of child and elder care services and programs. From 1995 through 2000, the ABC has committed to investing an additional $100 million in targeted communities around the country.

At the end of phase one, approximately 50 percent of ABC funds were expended in support of early childhood child care projects. The remaining funds supported school-age care (38 percent) and elder care (12 percent). The plan for phase two is to continue the community needs-driven approach used in phase one. Thus, no targeted allocation among the three areas has been made up front. Elder care will likely increase along with school-age care, and more projects focused on infant/toddler care probably will be funded.

Services Funded

Child care centers, family child care and school-age care services and improvements have been funded. Existing community services in a target area may receive support, while new services also may be developed. ABC funds are for start-up expenses, not the ongoing expenses of operating a program (e.g., fee subsidies). These funds are for one-time efforts that expand or improve services, such as facility construction or renovation to accommodate a program for infants and toddlers, a center-wide staff development program, mini-grants for equipment and other items necessary to achieve accreditation, and the direct costs of accreditation. The expectation is that programs will sustain their ongoing operations through fees and other sources of revenue.

During phase two, greater emphasis is being placed on quality improvement, developing services that meet the specific needs of working parents such as extended hours, and projects focused on services for school-age children.

How Funds Distributed

The ABC is managed by Work/Family Directions, a national provider of corporate work-life services. The process for developing ABC-funded community-based strategies begins with an employee demand assessment focused on employees in a company (or companies) in a specific geographic area and a supply assessment focused on the same area. The resulting gap analysis leads to recommendations for projects and programs to fill the gap between demand and supply. The assessments, analysis and recommendations are conducted by Work/Family Directions. The next step is for Work/Family to issue an RFP (request for proposals) to potential community vendors. The RFP is tailored to the selected approaches and clarifies employee needs and demands that must be addressed. Winning proposals are funded through contracts with Work/Family Directions. Another way that projects may be funded is through a "special opportunity"—an existing project or initiative that is aligned with identified employee needs and in which ABC can become a funding partner.

In the second phase of ABC, projects are developed through community-based strategies (described above) and through a new strategy: championship models. Championship models are intended to be research and development projects that can test innovative solutions that are national in scope and

can be adapted widely. Currently, there are four kinds of championship models in the works:
1) The Bridge project is a voice mail messaging service in public schools designed to improve communication among parents and teachers.
2) Backup Care is developing a series of child and elder care programs matched to employee needs, such as in-home care, programs for mildly ill children and registries of backup care providers.
3) Middle School Youth is developing innovative after-school and summer programs for adolescents (10- to 14-year-olds) tailored to the needs and interests of adolescents.
4) Partnerships for Quality Care is developing initiatives in four broad subgroups, keyed to the structure of child and elder care services.

Additionally, ABC's work also involves:

- School-age child care accreditation is being developed with leading school-age care associations and two funding partners (the U.S. Air Force and the DeWitt Wallace–Reader's Digest Fund).
- With leading family child care trainers, additional family child care training curricula are being created based on a professional development progression model with both advanced practice and mentoring curricula.
- With the National Institute of Adult Daycare, a program accreditation system for adult day care programs is being piloted.
- Director credentialing is the next step in the overall strategy of improving quality in center care. The analysis of facilitated center accreditation undertaken in phase one showed that the strongest indicator of successful accreditation is good, sound leadership. Director credentialing is designed to address the gap between the need to develop leaders and the scarcity of educational programs to do this.

ABC's role in each of these is to partner with leading organizations and help stimulate interest in the provider community to advance innovative solutions.

Population Served

ABC initiatives are targeted specifically at the needs of employees in a particular geographic area. Typically, the needs of employees determine the types of service improvements, expansions or development that occur in a community. During the first phase, 45 communities in 25 states and the District of Columbia were involved in ABC-funded initiatives.

Strategic Considerations

- Business acts in response to bottom-line business concerns. The Champion companies, in their joint statement launching phase two, said, "We believe that supporting the diverse dependent care needs of our employees is critical to our success as it enables our companies to attract and retain a productive, competitive, committed and motivated workforce." ABC funds are business dollars, not charitable dollars, and must demonstrate a direct link between projects funded and company productivity.
- ABC concentrates on expanding and improving the supply of dependent care. Corporate support for the ongoing cost of child care for employees is expressed through company-sponsored dependent care assistance plans (DCAPs) and the provision of other services such as resource and referral programs. (A DCAP is profiled on page 35.)
- The Champions believe, "By working together we can do more to meet the dependent care needs of our employees than if we worked alone." Significant effort was required to create and maintain the collaboration among leading national corporations.
- Community-level models that emulate and link with ABC are an effective strategy for child care improvement and expansion in areas with concentrations of corporations. For example, Houston has created such a model (Corporate H.A.N.D.S.). In areas with one major employer or few large employers, single-company strategies can be effective.

Other Sites With Similar Strategy

The ABC offers opportunities for local and regional employers to join the collaboration to work on solutions in their communities. The Houston Area Network for Dependent Services (H.A.N.D.S.) is a local employer collaborative that partners with the ABC. (H.A.N.D.S. is profiled on page 74.)

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Private Sector Financing

FINANCING CHILD CARE IN THE PRIVATE SECTOR (Employers and Unions)

Houston Area Network for Dependent Services (Corporate H.A.N.D.S.) (Texas)

Description
Corporate H.A.N.D.S. is a collaboration of 30 companies in the Houston area who pool their resources to support investment in dependent care services.[1] The companies work together to identify the dependent care needs of their employees and the community around them. Specific projects are then developed to help meet those needs.

When Established
Planning began in 1991, and the project was launched in 1992.

Amount Generated Annually
$750,000 was raised in fiscal year 1996.

Services Funded
Improving the quality of early childhood care and education (including practitioner training, program accreditation, on-site visits by child care specialists, scholarships for professional development, peer-support meetings, parent education and small equipment grants); facility expansion grants; summer programs; and elder care referral, consultation and support.

How Funds Distributed
Families who are employed by corporate members nominate programs or projects. Initiatives for Children, a Houston-area child care resource and referral agency, selects child care projects (based on criteria established by the corporate members) and administers funds. Sheltering Arms, a local United Way agency, administers the elder consultation and referral service.

Population Served
Corporate H.A.N.D.S. funds and training services are made available to community-based and company-sponsored child care and early education programs that: 1) are located in areas with a high population of member employees; 2) are already serving some member employees and are willing to give priority enrollment to more of these families; and 3) are willing to participate in training and work toward accreditation. (It is important to note that, while the programs must give priority to the children of Corporate H.A.N.D.S. members, these programs typically serve a diverse constituency and include many children from the larger community.)

Recently, Corporate H.A.N.D.S. has been focusing on programs that serve children between the ages of 10 and 13, including efforts to make afternoon enrichment programs more accessible to school-age children and encourage planning among the staff at middle schools, local parks and recreation departments, and others.

Strategic Considerations
Corporate H.A.N.D.S. seeks to enhance the productivity of participating businesses and strengthen the child care and education programs in the community at large. In considering the feasibility of replicating this strategy, the following issues should be explored:

- Pooling resources strengthens the capacity of all participants. Smaller companies see a greater impact from the limited dollars they can contribute; larger companies see more cost-benefit and wider utilization of the initiatives they sponsor.
- Including child care (for children of all ages) and elder care issues allows the initiative to reach more families.
- Corporate members appreciate that H.A.N.D.S. is a locally developed and administered initiative; their contributions have a direct impact in Houston.
- Funds raised by Corporate H.A.N.D.S. are used to increase the quality and supply of child care and early education programs in the community. The initiative does not help parents pay for child care. It also does not provide the operating assistance many child care programs need to attract and retain qualified teachers.

1. In 1996, H.A.N.D.S. included the following members: Aetna Life and Casualty, Allstate Insurance Company, Amoco Corporation, AT&T, Chevron, College of the Mainland, Cooper Industries, Deloitte & Touche, Dow Chemical, Enron Corporation, Exxon, First Interstate Bank of Texas, Houston Chronicle, Houston Lighting & Power Company, IBM, KHOU-TV, Lyondell Petrochemical, Marathon Oil Company, Meridian Oil, Inc., Mervyn's, Mobil, PanEnergy Corporation, Santa Fe Resources, Inc., Tenneco, Texaco, Texas Commerce Bank, Texas Instruments, Transcontinental Gas Pipe Line Corporation and UTMB.

- Approximately half of the members of Corporate H.A.N.D.S. are members of the national American Business Collaborative (ABC) initiative. Initiatives for Children has worked out a cooperative agreement with Work/Family Directions (the entity that administers ABC) to allow these dollars to be spent in Houston following the locally developed plan.

Other Sites With Similar Strategy
Corporate Champions in Charlotte, North Carolina, as well as corporate/community initiatives in Seattle, Washington; Fort Worth and San Antonio, Texas; Denver, Colorado; Rochester, New York; and many other cities.

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FINANCING CHILD CARE IN THE PRIVATE SECTOR (Employers and Unions)

Child Care Partnership Act (Florida)

Description
The Child Care Partnership Act is designed to encourage businesses that employ low-wage workers to pay a portion of the cost of child care for their employees. When the legislation is implemented, matching funds will be made available to employers who help subsidize the cost of child care for the low-income individuals they employ. The act creates a nine-member Executive Partnership, comprised of corporate leaders, to establish more specific guidelines and eligibility criteria for the program.

When Established
The act was included as part of Florida's most recent welfare reform legislation, which was passed during the 1996 legislative session.

Amount Generated Annually
$2 million was appropriated for the initial, pilot phase of the Partnership.

Services Funded
Child care subsidies for employed families with low incomes.

How Funds Distributed
The act specifies that funds will be administered by child care resource and referral agencies, the private nonprofit organizations that administer child care subsidies in Florida. Further details will be developed by the Executive Partnership.

Population Served
Working families with incomes at or below 150 percent of the federal poverty level (approximately $26,000 for a family of three).

Strategic Considerations

The Child Care Partnership Act grew out of several activities that were taking place more or less simultaneously. These include the following:

- The waiting list for subsidized child care had grown to more than 20,000 names statewide.
- Members of the Florida State Legislature were looking for ways to encourage greater employer involvement in child care and began to explore the feasibility of developing a matching grants program.
- The Florida Children's Forum and the Child Care Action Campaign held a child care symposium (at the state capital) for employers and policy makers. The Child Care Partnership matching grants proposal was presented to the group and was received very favorably.
- A federally funded child care research partnership examined the employment patterns for families who receive child care subsidies and was able to identify, in several regions of the state, the specific industries in which workers receiving child care subsidies were likely to be employed. This put a human face on the data and helped legislators to understand who, specifically, would be affected by the bill.

These activities, taken together, helped to solidify bipartisan support for the act, which was included as part of the welfare reform legislation developed by a Republican member of the legislature. Additionally, a number of business leaders offered strong support for the legislation.

Other Sites With Similar Strategy

None have been identified.

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FINANCING CHILD CARE IN THE PRIVATE SECTOR (Employers and Unions)

The NYSLMCCAC Enrichment Grants Program (New York)

Description

The New York State Labor/Management Child Care Advisory Committee (NYSLMCCAC) has established, and continues to support, a network of 51 work-site child care centers for children of state employees. In addition to providing technical assistance and start-up grants, NYSLMCCAC has established an Enrichment Grants program to enable the centers to address program quality issues and also maintain affordable fees for employee parents. Grant funds are distributed to the centers based on formula that takes into consideration the number of state employees' children enrolled and the percentage of low-income parents served. Centers that receive accreditation from the National Academy of Early Childhood Programs receive a one-time additional $5,000 in their operating grants.

When Established

NYSLMCCAC was established, and began to provide start-up grants and technical assistance, in 1981. In 1986, support from NYSLMCCAC was expanded to include health and safety grants. In 1989, the health-and-safety-grant concept was broadened to include staff development and other operating costs, and was renamed the Enrichment Grants program.

Amount Generated Annually

In the 1995-96 state fiscal year, $1,703,310 was expended for the Enrichment Grants program. These funds, and others overseen by the NYSLMCCAC, are set aside as part of the collective bargaining process with the following unions: Civil Service Employees Association (CSEA), Public Employees Federation (PEF), United University Professions (UUP), Council 82, District Council 37 and the Graduate Student Employees Union. The Governor's Office of Employee Relations also contributes on behalf of management/confidential employees.

Services Funded
The grants may be used for the following: staff salaries (with some restrictions) and benefits, staff development, health and safety projects, professional services (such as bookkeeping and legal assistance), supplies, equipment, nonroutine maintenance, liability insurance, advertising, food and occasional labor.

How Funds Distributed
Funds are distributed through contracts between each center and the Governor's Office of Employee Relations (which staffs the NYSLMCCAC.) The centers are required to submit an expenditure plan for the total grant amount, a staffing plan, a list of board members, a year-end audit, the board's response to the audit management letter, and certification of grant expenditures. Additionally, all network centers must establish a sliding fee scale.

Population Served
Network centers serve primarily children of state employees, although they may serve the larger community as well—and many do. Rather than requiring the centers to serve a specific percentage of state employees, NYSLMCCAC expects the centers to give priority to children of state employees and to establish a sliding fee scale for these employees.

Strategic Considerations
During the years that it helped to establish a network of work-site child care centers, NYSLMCCAC learned firsthand that child care was critically underfunded. It became clear to the committee that in order for the centers to keep parent fees affordable and also maintain high quality standards, operating support in addition to parent fees was necessary. In considering this strategy, the following issues should be explored:

- New York State's network of work-site child care centers is a very visible, tangible response to employees' needs for high-quality child care. Several of the centers provide care during odd hours (for example, shift workers at state mental health and correctional facilities). Many provide before- and after-school programs as well as holiday programs and summer camps. Employees are very pleased with the centers. The state benefits from improved morale and productivity and decreased absenteeism.
- Many state employees are not able to benefit from the work-site centers. Most of the centers have long waiting lists, and services for infants and toddlers are extremely limited. NYSLMCCAC has attempted to address this concern by developing a number of related programs, including: enhanced resource and referral services; a Work and Family Initiatives Fund that makes small grants available to local labor/management committees for projects or services designed to address local identified needs; and a Dependent Care Advantage Account Program (profiled on page 35 of this report.)

Other Sites With Similar Strategy
Twenty-six states have at least one work-site child care center (although most states have only one of these centers). Most of these states made funds available to help renovate the facility and to cover other start-up costs. Many of these states provide the centers with free rent, utilities and maintenance services, but none provide operating assistance similar to the NYSLMCCAC Enrichment Grants program.

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Private Sector Financing

FINANCING CHILD CARE IN THE PRIVATE SECTOR (Employers and Unions)

The 1199/Employer Child Care Fund
(New York City)

Description
The 1199/Employer Child Care Fund includes contributions, set aside as part of the collective bargaining process, from 147 employers. The funds are used to help meet the child care needs of employees who are members of Local 1199, the National Health and Human Services Employees Union.

When Established
The fund began in 1992 with contributions from 16 hospitals and nursing homes.

Amount Generated Annually
$7.9 million was contributed in 1996.

Services Funded
The fund supports seven initiatives, which include: one on-site center; contracts with community-based child care centers and family child care homes; vouchers that reimburse up to $75 per week for child care provided in a wide range of formal and informal child care settings; contracts with more than 100 summer camps in the metropolitan area; contracts with programs offering care during school holidays; child care resource and referral services; and a weekend cultural arts program for children and teens interested in dance, music, art, theater, tutoring, SAT/PSAT preparation and physical education.

How Funds Distributed
A board of trustees (13 union representatives and 13 management representatives) establishes broad policy guidelines for the fund. One hundred and twenty local child care committees, located at worksites, conduct needs assessments, analyze and allocate the child care budget, promote child care programs, serve as liaisons to the fund, assist with program registrations and recommend child care programs to the fund staff.

Population Served
Children (from infancy to 17 years of age) of 1199 members.

Strategic Considerations
The 1199/Employer Child Care Fund was established to increase 1199 members' access to high-quality, affordable child care services and information. (Eighty percent of 1199 members are women.) In considering the strategy, the following issues should be explored:

- Establishing the fund under the umbrella of Local 1199 allows the resources of many employers to be combined (147 employers currently participate).
- The initiative serves children of all ages and has a mix of approaches and payment methods to meet diverse family needs.
- Local work-site child care committees play a pivotal role in identifying needs, approving fund allocation and developing new programs.

Other Sites With Similar Strategy
The New York State Joint Labor/Management Child Care Advisory Committee is a child care fund established by several public employees unions, but it is not as large or as diverse as the 1199 fund. Other private-sector, collectively bargained child care funds have not been identified.

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Private Sector Financing

FINANCING CHILD CARE IN THE PRIVATE SECTOR (Employers and Unions)

Temporary Disability Insurance Coverage for Maternity Leave (New Jersey)

Description

New Jersey's temporary disability insurance (TDI) program has three components: the state plan, private plans, and disability during unemployment. The state plan levies a tax on employers and employees of .5 percent of the first $18,000 of wages. Benefits are equal to two-thirds of a worker's weekly wages, up to a maximum of $339 per week, for up to 26 weeks. Employers are permitted, however, to provide disability insurance coverage to employees through private plans approved by the state. These plans must provide coverage that meets or exceeds state plan benefits with respect to compensation, eligibility requirements and payment duration. Both the state and private plans extend coverage to disabilities that begin within 14 days after the last day of employment. After the 14th day, workers are covered under the disability during unemployment program. This separate program is administered as part of the unemployment compensation system.

When Established

The New Jersey TDI program began in 1949, when $50 million was transferred from the Unemployment Insurance Trust Fund. Initially, coverage was given for all disabling conditions except pregnancy, which was added in 1961.

Amount Generated Annually

Employees with an annual income of at least $18,000 pay $90 per year for TDI. The potential benefit, per employee per year, is $8,814 for 26 weeks—but pregnancy-related claims do not typically reach this maximum. Data for 1990 indicate that the average duration of pregnancy-related claims was approximately 82 days. (The average duration for all other benefits is approximately 72 days.) Pregnancy currently accounts for approximately one-sixth of all benefits.

Services Funded

TDI benefits are limited to a nonoccupational illness or disability, including pregnancy.

How Funds Distributed

The state plan and the disability during employment program are directly administered by the Division of Unemployment and Disability Insurance. This agency is responsible for determining claimant eligibility and paying benefits. Private plans are administered by private insurance companies or through self-insurance.

Population Served

In 1990, the New Jersey Department of Labor reported that almost 97 percent of women who filed for TDI benefits earned less than $25,000 per year. A 1991 report indicated that 31 percent of the women filing for TDI earned between $10,000 and $15,000 per year.

Strategic Considerations

Work on the initial TDI proposal began in 1943, when a state commission on postwar economic welfare began to explore how to develop a program to protect workers against wage loss caused by illness or nonoccupational accidents. Pregnancy was added as an allowable "disability" in 1961. The law was further amended in 1979 to comply with the federal Pregnancy Discrimination Act.

The benefits available under TDI, though very limited, can be an important source of support for employed mothers with low to moderate incomes. When combined with accumulated vacation and sick leave, TDI benefits can help a mother to stay home with her newborn child for several months. In considering this strategy, the following issues should be explored:

- Partial wage replacement under TDI is an inexpensive way to support parental leave, and one that allows the cost to be shared by employers and employees. It helps to keep many low-income women off welfare and has not caused a significant economic strain on employers. Although the New Jersey TDI claims load has increased, the fund has remained solvent due in part to the fact that the taxable wage base is adjusted each year with increases in the average weekly wage. Interest income on the fund also contributes to its solvency.

- The cost of TDI benefits is considerably less than the cost of subsidizing infant care for low- and moderate-income families.
- The New Jersey approach to TDI is especially helpful for small employers who could not afford to provide paid parental leave without a state fund. In 1952, 72 percent of employees were covered under private plans. Over time, however, smaller employers found that it didn't pay to have a private plan, and some private insurers found it wasn't profitable enough to compete with the state. More and more employers enrolled in the state plan. By 1994, only 21 percent of covered workers and 3 percent of covered employers used private plans.
- TDI is currently limited to a pregnancy-related "disability" that is corroborated by a physician. It may not be used to care for a newborn, an adopted child or by a father or other family member (none of whom gave birth to the child and were therefore not "disabled" by pregnancy). However, the New Jersey Legislature is currently considering legislation (A1660) to extend TDI to provide replacement income for family members who must leave employment temporarily to care for a newborn or newly adopted child, or a seriously ill family member.

Other Sites With Similar Strategy

Five states in addition to New Jersey have temporary disability insurance programs, including: Rhode Island (funded by employee tax); California (funded by employee contributions); New York (funded by employer tax or joint employer/employee contributions); Puerto Rico (funded by employers and employees); and Hawaii (funded by an employer and employee tax). Additionally, more than half of all workers in the United States receive TDI benefits from their employer through private insurance plans.

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FINANCING CHILD CARE IN THE PRIVATE SECTOR (Community Child Care Initiatives)

Child Care Scholarship Fund of the Marin Community Foundation (Marin County, California)

Description

The Child Care Scholarship Fund (CCSF) provides financial assistance to low- and moderate-income Marin County families. It was launched by the Marin Community Foundation, which was established in 1987, anchored by a $600 million trust fund and other donor bequests. The CCSF is an endowment fund managed by the Marin Community Foundation. The proceeds from the CCSF support the Child Care Scholarship Program (CCSP), which is administered by the Marin Education Fund (MEF), which administers a variety of other vocational and educational scholarship programs.

When Established

The CCSF was announced in 1990 with a $3 million donation from the Marin Community Foundation to establish the endowment. The foundation also established an additional pool of up to $3 million of challenge funds to be used to match community donations. The first scholarship awards were made in 1993.

Amount Generated Annually

In 1990, the Marin Education Fund was selected to design and administer the scholarship program as well as to raise the community funds to draw down the match. The Marin Education Fund had 10 years of successful experience managing vocational and educational scholarships for the community. For the first few years of fund development, the Marin Community Foundation set a 3-to-1 match rate—$3 for every $1 donated by the community. For 1994-95, the match rate was 2-to-1, declining to 1-to-1 for 1995-96 and beyond. The original goal was to have a total of $9 million in the CCSF by 1997. Community donations amounting to $650,000 were raised from local businesses, other philanthropies and a few individuals, in particular one anonymous individual who donated $250,000 structured to provide additional giving incentives.

Currently, the value of the CCSF endowment stands at $6 million. This generates about $300,000 annually for scholarships, administration and further fund development. $225,000 is allocated annually to child care scholarships.

Services Funded

The CCSP was originally designed to help Marin families whose incomes exceeded the eligibility limits for state child care subsidies. This was modified over the years to cover families with lower incomes who needed help to bridge a gap between public subsidies, to adjust the upper income for inflation, and to reduce the number of years that a particular family was assisted, in order to enlarge the number of families who could be helped.

Currently, the proceeds from the CCSF provide financial assistance in the form of child care scholarships to low- and moderate-income families.

Scholarships cannot be used for purely child enrichment programs or for child-protective reasons. Families must use licensed child care providers (either centers or family child care homes) to qualify for assistance.

Families must have low to moderate incomes. The upper income limits currently range from $35,000 for a family of two to $40,000 for a family of four or more. Scholarships are awarded to cover between 30 percent and 90 percent of the family's child care fees, based on the family's income. Assistance is designed to be a time-limited bridge to help the family make the transition to self-sufficiency. Scholarship awards are not made for longer than two years, and many are for six months or less.

How Funds Distributed

Families learn about the CCSF through child care providers, the local child care resource and referral agency, word of mouth and outreach materials from the Marin Education Fund. Families who call the MEF can speak directly to a child care advisor, listen to a voice mail informational message and/or have written informational materials mailed to them. A family completes an application and is then interviewed by the child care advisor (who works as part of a team of financial counselors).

Once the family is approved for a scholarship, MEF issues an award letter providing the specific terms of the grant (length, total amount and percentage of fee). Payments are made to the child care provider on a monthly basis. Scholarship awards are reviewed every six months for continued eligibility.

Population Served

Scholarships are available to families who are Marin County residents, have incomes below $40,000 and need child care because they are employed, actively engaged in a vocational or educational program, or are seeking work directly after completing such a program.

Strategic Considerations

- The ease of raising $3 million in community funds to match the challenge grant offered by the Marin Community Foundation was underestimated. The task proved difficult and more costly than anticipated. The original estimate of more than a 10 percent return on investment for the CCSF also was overly optimistic. The MEF believes these difficulties were due, in part, to the economic climate of California and the county, which worsened dramatically between the late 1980s when the CCSF was conceived and the early 1990s when the fund-raising began.
- The original design for CCSP in the late 1980s called for supporting families with incomes between $15,000 and $28,000 at an average 50 percent subsidy over the years until their children reached age 10. At that time, it was estimated that between 600 and 700 Marin families would qualify. By the time CCSP was launched and began making scholarship awards in 1993-94, the estimate of eligible families had soared to more than 4,000, primarily due to economic and demographic changes. Eligibility criteria were redesigned to match the resources available, while remaining true to the original intent of helping families who were ineligible for public subsidy.
- The Marin Community Foundation was criticized when the CCSF was announced because the CCSF was promoted as "the answer"—the one best strategy to address child care needs of Marin County families. Previously, the foundation had made grants to many local child care centers. Eventually, the foundation resumed its community-based child care grantmaking at an annual level of about $500,000. The focus is on child care improvement and expansion, especially in relation to community development and the economic self-sufficiency of families.
- The experience of the CCSF shows that a scholarship fund is insufficient to address the full range of child care issues in a community. Scholarship funds are a valuable and important part of an overall strategy designed to increase public and business concern about child care and increase investment on behalf of lower-income families. Strategies and resources also have to 1) build the capacity of the child care community to function more effectively and expand its services, and 2) build the civic constituency to support child care as an integral part of community economic and overall planning. The underlying message is that community health depends on good, affordable child care services.

Other Sites With Similar Strategy

A similar scholarship fund is being set up by the Community Foundation of Collier County in Naples, Florida.

The Vermont Community Foundation is host to a new initiative, which may be similar, called the Child Care Fund of Vermont. The fund's long-term goal is to change the funding structure of child care in the state of Vermont in order to increase overall investment by 50 percent. The fund's immediate activities are focused on fund development and on public engagement designed to raise the level of debate around child care issues, creating a public consensus for greater investment.

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FINANCING CHILD CARE IN THE PRIVATE SECTOR (Community Child Care Initiatives)

The Model Centers Initiative of the Miriam and Peter Haas Fund (San Francisco, California)

Description
The Model Centers Initiative provides significant, multiyear support to a small number of child care programs in San Francisco that serve low-income families with preschool-age children. The goal is to help each center become a "model center" that provides developmentally appropriate, high-quality child care. The initiative is the central focus of the fund's grantmaking strategy to improve the quality of life for young children and their families in San Francisco. The fund's overall grantmaking program focuses primarily on early childhood care and education in San Francisco.

When Established
The Model Centers Initiative was designed during 1995, and the first four centers were selected to participate in 1996.

Amount Generated Annually
Annual grants to the centers range from $100,000 to $400,000. The fund has committed to support the initiative for three years and may extend its commitment to five years.

Services Funded
Eligibility criteria specified that centers be full-day, full-year, nonprofit programs serving low-income preschoolers and their families. The group of centers selected must reflect the cultural and ethnic diversity of the city of San Francisco, and be located in geographically diverse neighborhoods of the city. Further, the selection process took into account the quality of leadership, the nature of the current program and the community support of each center.

Each center requested funds for specific improvements. Across all four centers, these included items such as staff development, salary enhancements, equipment and supplies, comprehensive service staff (e.g., social workers), physical renovations and planning for the purchase and/or construction of a new site.

In addition to funding the initial needs assessment consultation for each center, the fund has paid for a three-year evaluation of the initiative. A number of the fund's grants to other organizations include an agreement to provide technical assistance to the model centers as part of their funded work. Fund staff spend a significant portion of their time on work related to the model centers.

How Funds Distributed
After a thorough needs assessment for each center (commissioned by the fund), each center prepared an improvement plan and associated funding request. After review and approval by the fund of the annual plan, each center receives a quarterly payment based on the cash flow required to implement its plan.

Population Served
Low-income families in San Francisco who use one of the model centers for child care are the population served directly. Four centers are currently funded; a small number of additional centers may be selected after the results of the evaluation are considered.

Strategic Considerations

- The Model Centers Initiative represents a significant financial investment and commitment on the part of a philanthropic organization to child care in a city.
- The Miriam and Peter Haas Fund is concerned that its commitment and infusion of resources to early childhood serve as a catalyst encouraging other funders to increase, rather than reduce, their commitments to early childhood. The fund is tracking both public and private investment in early childhood activities in San Francisco. Further, the fund is actively engaged in—and providing financial support in partnership with other funders to—community initiatives such as a project to improve the school district's child development programs and the new San Francisco Starting Points Initiative. (San Francisco is one of about two dozen localities selected by the Carnegie Corporation to work toward systemic change to improve child development outcomes for babies and young children.) The fund intends share the lessons learned in San Francisco through model centers to persuade other private funders to make a similar commitment to early childhood in their own cities.

- To the extent that the fund can target its resources to improving the context in which all San Francisco centers operate, it will be more likely to produce lasting improvements in the model centers and improvements that will reach beyond them. Contextual factors that might be addressed include professional development, public financing for child care services, facility development and financing.
- Initiatives designed to directly help a relatively small proportion of the child care centers in a given city will miss roughly half of all child care (that which is home-based). However, the contextual changes that result have the potential to positively affect the wider child care community.

Other Sites With Similar Strategy
Some community foundations make grants to support child care projects. Other family foundations also support child care improvement efforts in communities.

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FINANCING CHILD CARE IN THE PRIVATE SECTOR (Community Child Care Initiatives)

Allegheny County Early Childhood Initiative
(Pittsburgh, Pennsylvania)

Description
The Allegheny County Early Childhood Initiative (ECI) seeks to ensure 7,500 children in up to 80 low-income neighborhoods receive high-quality early childhood care and education by 2001. This goal doubles the number of children currently served in Allegheny County and the city of Pittsburgh. ECI is a collaborative effort that emphasizes neighborhood-based decision making; builds on successful agencies, enterprises and partnerships already operating in Pittsburgh and Allegheny County; and aims to establish a unified system of early childhood care and education. The private sector will provide the initial support—for as much as five years—and the public sector will sustain the effort over the longer range.

When Established
ECI was sparked in October 1994 when United Way of Allegheny County responded to a $1 million challenge grant from The Heinz Endowments to take the lead in developing a plan to manage a community-wide initiative to address the downward spiral in the status of low-income children. United Way pulled together a diverse group of business leaders, professionals, community representatives and other concerned individuals to plan the effort. On June 4, 1996, the United Way Board of Directors approved the ECI business plan and the initiative was officially launched.

Amount Generated Annually
United Way of Allegheny County has committed to raising $59 million from the private sector to support the initiative during the first five years. During this start-up phase, gradually increasing public-sector support will be mobilized to eventually sustain the system, beginning in year six and for the long term.

Services Funded
ECI funds will be used to support early childhood education provided in child care centers, family child care homes and Head Start programs, as well as informal school-readiness activities such as Beginning with Books and Even Start. Each municipality/neighborhood will conduct an inclusive planning process and prepare a proposal requesting participation in the ECI. This process will determine the types of early child care programs that will be supported. All programs selected to participate in ECI must meet quality standards established for the initiative. Neighborhoods may also receive ECI funds to support the cost of building or renovating child care facilities, providing training and technical assistance to early childhood programs, helping with the cost of program accreditation, and other quality improvement and supply-building efforts.

How Funds Distributed
A methodology for distributing funds is currently being developed. The goal is to create agreements among the early childhood care and education programs (which will provide the care and education), community representatives (who will help monitor program quality) and the United Way (which will administer the funds).

Population Served
ECI targets low-income children in "at-risk" neighborhoods. "Low-income" is defined as families with incomes at or below the federal poverty level if they are not employed, or at or below 185 percent of poverty level if they are working. "At-risk neighborhood" is defined as a census tract that meets at least three of the five "Kids Count" criteria established by the Annie Casey Foundation (poverty rate, female-headed households, high school dropouts, unemployed males, and families receiving public assistance).

Strategic Considerations
ECI is focused on elevating early childhood enrichment to a community-wide priority; creating an integrated system; improving the quality of early childhood education; and expanding the enrollment of low-income children in child care, Head Start or preschool enrichment programs. In considering this approach, the following issues should be explored:

- ECI focuses on promoting opportunities for early care and education among poor children birth to five years of age. (Many of the early childhood education initiatives profiled in this compendium target three- to five-year-olds.)
- ECI was conceived by an 80-member group of business leaders, professionals, community representatives and concerned individuals. The scope and diversity of this group were crucial to obtaining broad support for the initiative.
- ECI represents a significant financial commitment from the private sector. United Way of Allegheny County has agreed to lead the fund-raising effort. Before committing to an initiative of this magnitude, the organization commissioned a feasibility study to determine whether the necessary funds could be raised. (The ECI fund-raising initiative is in addition to—and not intended to compete with—the annual United Way fund drive.) The feasibility study confirmed that it was indeed possible. By August 1996, United Way of Allegheny County had already secured funding commitments from The Howard Heinz Endowment and the Grable Foundation. A number of additional foundations, corporate sponsors and individuals are expected to come on board soon.
- A business plan for the initiative was prepared with pro bono help from Ernst & Young and McKinsey & Company, two nationally recognized accounting and management consulting firms. These firms helped to quantify every aspect of the project and to describe the initiative in terms that were meaningful to the business community. The business plan was the key to getting approval from the United Way board to proceed with the project. Assistance from Ernst & Young and McKinsey & Company was invaluable in garnering private-sector support for the project.
- A public-sector committee, including representatives from all levels of government, business leaders and United Way board members, has been established. The role of this committee is to develop a plan to help the project make the transition from private to public sponsorship during year six and thereafter.

Other Sites With Similar Strategy

The scope and level of commitment expressed by ECI are unique. While many communities are involved in planning and coordination efforts aimed at improving early childhood care and education, few have committed large sums of money to support these efforts.

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Financing Child Care Through Public-Private Partnerships

Financing Child Care Through Public-Private Partnerships

The need for child care services and subsidies, the types of child care selected by parents and the prices paid for care vary from community to community as do financial partners. In some communities, schools have invested in child care and early education; in other areas, the city, town or county government is a major player. Businesses typically believe that the contributions they make should be spent in the communities where their employees live and work. Their philanthropic dollars are generally targeted to specific neighborhoods or programs. It is not surprising, then, that efforts to finance child care via public-private partnerships are usually local, community-based initiatives.

Most child care programs are supported by funds from many sources. This funding mix often occurs in a haphazard fashion. All too often, the child care services available to families reflect the fund-raising skill of the program operator rather than a planned and equitable system of public finance. But some communities—such as Rochester, New York—have developed strategies to bring child care funders together in order to establish collaborative approaches to financing, implementing, evaluating and monitoring services. Rochester's strategy is profiled in this section of the report.

State governments are beginning to recognize the key role that local partnerships play in child care financing, and several states have developed initiatives designed to support this approach. North Carolina's Smart Start is not only an excellent example but also the largest and most well-funded of these initiatives. The New York State Early Childhood Investment Fund (ECIF) is another state-level initiative that was designed to spur contributions to, and planning for, child care at the local level. But unlike Smart Start, which is a comprehensive initiative that supports a wide range of early childhood education and support services, ECIF focused solely on efforts to increase the quality and supply of child care. Both of these initiatives are profiled in the following pages.

The T.E.A.C.H. Early Childhood® Project, which began in North Carolina and has been replicated in Georgia, Florida and Illinois, is another community-based strategy that leverages funds from a variety of sectors to support educational scholarships and wage increases for child care practitioners. A profile of this initiative is included.

FINANCING CHILD CARE THROUGH PUBLIC-PRIVATE PARTNERSHIPS

The Early Childhood Investment Fund (New York)

Description

The Early Childhood Investment Fund (ECIF) was a partnership founded in 1992 by the American Express Foundation, the Travelers Foundation and New York State. ECIF supported public-private partnerships in communities throughout the state that improve the delivery of early childhood services to enable parents to work. ECIF offered two kinds of support: funding and technical assistance. Funding was available to community consortia to expand the supply and enhance the quality of early childhood services. Both community planning and direct-service projects could be funded. Technical assistance and support were offered to communities in the form of outreach to inform them about the availability of ECIF grants, targeted assistance during the application process from ECIF staff and consultants, and ongoing contact during the project period.

When Established

In 1992, Governor Mario Cuomo proposed $100,000 in state funds from the Department of Social Services to launch the Early Childhood Investment Fund (ECIF) to provide additional support for early childhood services. The state investment was matched with $50,000 each from the American Express and Travelers foundations. In August 1992, the Department of Economic Development issued the request for proposals (RFP) for a nonprofit organization with statewide capacity to administer the ECIF. The RFP called for a year of start-up activity prior to grantmaking. United Way of New York State was selected and began operations in early 1993. ECIF was in place from 1994-1996.

Amount Generated Annually

ECIF generated funds in three ways: 1) annual budget appropriations from the state of New York; 2) private-sector contributions from individuals, foundations or corporations that added to the state-appropriated funds; and 3) local private-sector contributions to meet the local cash match required for some grants. Communities that apply for funds from ECIF were required to have a private local commitment of $2 for every $1 requested from ECIF. Projects serving low-income families were required to have $1 of private local match for every $1 requested from ECIF.

Over the life of ECIF, total state appropriations amounted to $781,000. The great majority of these funds were released to communities as grants (rather than being expended on technical assistance or on administration). Private-sector support for ECIF outreach, technical assistance and administration totaled $344,649. Generally, ECIF followed a plan of using state dollars for grants and private funds for outreach, technical assistance and administration.

During the nearly three years of grantmaking, ECIF awarded 18 planning grants and 22 direct-service grants to communities. The total expenditure for grants was $552,052. These funds generated an additional $1,577,273 in local match.

Services Funded

The goal of ECIF was to stimulate long-term systemic change in order to increase and improve the quality of early childhood services for families who are working or pursuing work. The ECIF funded community initiatives not likely to be fully funded by existing public or private sources. All projects were developed by community collaborations as part of long-range community-wide planning that involved the full range of public- and private-sector stakeholders (e.g., employers, schools, parents, government agencies, early childhood service providers). Projects that affected a single agency (e.g., one child care center, one school district) were considered only if they were the result of community-wide planning and are supported by the community collaboration. Priority was given to projects that represented community-wide efforts affecting many programs.

The ECIF funded three kinds of projects:

1) Planning grants to develop solutions to community child care problems (up to a maximum of $10,000 with no local match requirement).
2) Direct-service grants based on demonstrated community need for start-up of new programs and services or for expansion of existing programs and services. ECIF funds could be used to directly subsidize parent fees.
3) Quality improvement grants in four areas:
   - systemic approaches (e.g., creating a family child care network, developing a community scholarship fund)
   - program-specific activities (e.g., accreditation support or program equipment)
   - professional development that is part of a long-range community plan (not one-time training)
   - public awareness and consumer education campaigns

Technical assistance and support was available from ECIF to communities for developing consortia, assessing community needs, generating local match and developing proposals.

How Funds Distributed

ECIF was managed by United Way of New York State and governed by a policy board composed of 21 public and private leaders including representatives of state agencies (the Departments of Education, Economic Development and Social Services; Division for Women, Division of the Budget and Council on Children and Families), the legislature, business, philanthropy and the early childhood community.

Any organization in a community in New York could request information and application materials from ECIF. The application requested a brief project description, a budget and information about the lead agency, and a form for all collaborators to sign indicating their role in developing the proposal and their support for it. The lead agency could be any incorporated entity, for-profit or nonprofit. Applications were accepted on a rolling basis and for submission at any time during the year. The ECIF Policy Board reviewed and approved applications at its regular meetings, which are scheduled at least quarterly throughout the year.

Since ECIF was managed outside the public sector, its grantees are not subject to the delays and difficulties sometimes encountered in releasing government funds. Once approved, project funds were paid directly from United Way to the lead community agency based on mutual agreement to a simplified contract document. If the grant was for more than $10,000, the payments were split into two equal amounts. Regardless of the duration of a project, only two reports were required of grantees: an interim report of progress at the midpoint of the project, and a final report at the end.

Population Served

Every community in New York could apply for ECIF funds. Priority was given to low-income communities. The only restriction was that the project must address the child care needs of working families. In three years of grantmaking, ECIF awarded funds to communities in every region of the state.

To encourage proposals from communities serving low-income families, ECIF reduced match requirements. Applicants could use a variety of methods to demonstrate the low-income status of their community, including designation as a New York State Economic Development Zone, or eligibility for the Neighborhood Based Alliance (a community risk designation from the Department of Social Services), or presentation of statistical indicators of poverty and economic disadvantage.

As a result of ECIF's insistence on a collaborative community process of project design and its strong encouragement toward a unified child care system serving families across all income levels in a community, all ECIF-funded projects were serving low-income families to some extent. Most applicants who focused primarily on serving low-income communities were able to secure more than the $1-for-$1 match. Only two projects requested the reduced match rate.

Strategic Considerations

- The simple application process and the generous support and technical assistance offered to prospective grantees are strong points of ECIF. Many applicants, although initially surprised by the offer of help, found it to be sincere and useful.

Many improved their proposals, gained access to private-sector support and to public funding sources they had not been aware of, and made significant improvements in community relationships as a result. Some communities realized many of these benefits even though they did not end up applying for funds from ECIF.

- The high level of ECIF local match support demonstrates strong business interest in investing in child care services that affect their employees and/or the communities in which they do business. In many instances, the ratio of private-sector support to ECIF dollars was nearly 3-to-1, although only a 2-to-1 match was required. Using public funds to leverage private support to meet community-identified needs is a viable approach to expanding investment in early childhood services.
- The proposed state budget for 1996-97 appropriated no state funds for the continuation of ECIF, despite the efforts of various constituencies, principally the United Way and the foundations and corporations who serve on the ECIF Policy Board. The policy board decided to close ECIF as of December 31, 1996, and to have a summative evaluation conducted by an outside consultant to understand what ECIF accomplished and what elements of the partnership may be worth replicating in other states and communities. The final state budget (which passed more than three months late, in mid-July) did include $150,000 for ECIF to fund previously approved applications, but no other funds.
- Setting up the policy and operational structures of a pooled fund takes time. ECIF staff feel that at least a year should be devoted to this phase, without pressure to begin making grants. When public funds are involved, pressure is high to expend grant funds during the year in which the funds are appropriated. Without a clear mandate to invent first and grant later, ECIF was still defining process as it began reviewing grants.
- Initially, a leadership council had been envisioned as a companion to the policy board. While the policy board was the hands-on oversight, the leadership council was meant to be the "corporate champions" who would direct public attention to ECIF and generate support for it. The lieutenant governor and the CEO of Primerica agreed to cochair it and recruit other leaders. By 1994, five additional members had been invited. Development of the council was slower than expected and moved to the back burner once grantmaking began.
- The first phase of the ECIF was focused on creating the structures and policy to guide operations and grantmaking. The next phase was focused on outreach to communities and grantmaking. Fund-raising effort focused on ensuring that the annual state appropriation for ECIF was included in the budget each year. Broadening the private-sector fund-raising base beyond the founding philanthropic partners was not given sufficient attention early on. One view is that if ECIF had been successful in leveraging additional state funds to be used for grants and had sought to expand private-sector contributions to create a multimillion-dollar funding pool that was equally dependent on public and private funds, it might have had the stability to weather the political changes of a new administration. A significantly large fund that has touched many communities generates a strong constituency of supporters.

Other Sites With Similar Strategy

Similar funds exist in the states of California (Child Care Initiative), Maine (Child Care Development Project), Michigan (Child Care Campaign), Oregon (Child Development Fund) and in several communities across the country such as Charlotte, North Carolina (Corporate Champions).

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FINANCING CHILD CARE THROUGH PUBLIC-PRIVATE PARTNERSHIPS

Smart Start (North Carolina)

Description
Smart Start is a comprehensive initiative designed to make early childhood education and support services available to every child under six years of age whose family needs and wants them. The initiative also seeks to ensure that North Carolina early childhood programs and family services meet high quality standards and performance measures.

When Established
Smart Start was proposed by the governor and passed by the general assembly in 1993.

Amount Generated Annually
In 1995-96 the state legislature appropriated $57,257,864 for Smart Start. Amendments passed in 1995 also required the North Carolina Partnership for Children and local partnerships to match 10 percent of the annual Smart Start appropriation. (No more than half of this match may be in-kind donations.) Last year, Governor James Hunt and the North Carolina Partnership for Children raised $9.5 million in contributions from the corporate sector. Local partnerships raised an additional $4.8 million in leveraged grants and cash, in-kind and volunteer contributions.

Services Funded
While Smart Start funds may be used for a diverse array of services, most of the funds have been directed to providing early childhood care and education, immunizations and children's health services, and family support services for children of low- and moderate-income families. Many counties have used Smart Start funds to reduce waiting lists for subsidized child care as well as to raise income eligibility levels and/or child care provider reimbursement rates. Orange County established the WAGE$ Project, which provides salary supplements (based on attaining educational goals) to teachers, directors and family child care providers.

How Funds Distributed
The state awards Smart Start funds to counties through a competitive grant application process. To qualify, local applicants are required to establish private, nonprofit partnership boards to govern and coordinate local programs. The local partnerships must include families, educators, nonprofits, service providers, community groups, religious and business leaders, and county and municipal officials, and must develop a plan for collaborative child and family development services in their area. Smart Start funds are made available to help support implementation of the plan. At present, 35 local partnerships in 43 counties are participating in the initiative. Twelve additional partnerships representing 12 counties have been selected and are awaiting approval from the general assembly. The governor's goal is to gradually expand Smart Start to cover all 100 counties.

The Smart Start legislation established a state-level, private, nonprofit entity—the North Carolina Partnership for Children—exclusively to oversee and help coordinate the activities of local Smart Start initiatives. The partnership has established statewide goals and outcomes that serve as a framework for the local partnerships. Additionally, it offers technical assistance to local partnerships and helps to raise matching funds.

Funds currently flow to the counties via contracts between the state Department of Human Resources and the local partnerships. However, the Partnership for Children may assume responsibility for managing these contracts in the future.

Population Served
Smart Start funds may be used for a wide range of services and are not necessarily limited to low-income families. The primary goal is to create systemic change that can improve the quality, affordability and supply of child development services for all young children in the community.

Strategic Considerations
From its inception, Smart Start has had a significant influence on overall child care policy in the state. For example, the Smart Start bill was packaged with, and helped to pass, a number of child care system reforms that a bipartisan legislative commission had been working on for several years. These include

legislation to improve staff-to-child ratios in child care settings, increase child care subsidy funds and increase the state child care tax credit for lower-income families.

Smart Start was a centerpiece of Governor Hunt's campaign and clearly stressed that "parents have the primary duty to raise, educate and transmit values to young preschool children." The initiative seeks to help parents fulfill this role by empowering families and supporting the communities in which they live. Because Smart Start is very important to (Democratic) Governor Hunt, the Republican opposition has attempted to discredit and kill the initiative. Every aspect of its implementation has been carefully audited, and lengthy legislative battles have been fought over funds for the initiative. These battles have intensified since the 1994 election, when the Republicans gained the majority of the House of Representatives. (Prior to 1995, the Democrats had a strong majority in the House.) Despite these efforts, Smart Start has continued to grow and has gained strong support from North Carolina voters. Potential reasons for this support include:

- Smart Start funds are not limited to poor families who need child care. Local initiatives can address issues that affect all socioeconomic levels, and may include family support services such as parenting education, child development, health care, literacy and others. (One local plan includes vouchers for stay-at-home moms; others support vans to provide transportation to services, and so forth.)
- Smart Start is locally based, allows for variations among communities and requires strong local participation.
- In addition to providing flexible funds, the initiative encourages counties to establish local capacity to collaborate in the planning and delivery of services to children and families. The focus on collaboration and public-private partnerships helps to involve a broad constituency. The focus on planning and outcomes promotes accountability, vision and leadership.
- The initiative uses public funds to help leverage private contributions.
- Prior to the introduction of Smart Start, a bipartisan legislative research commission had reviewed many aspects of the child care system and recommended a number of reforms. Thus, key members of the legislature already understood child care needs and concerns and were ready to work with the executive branch when Smart Start was proposed.

But implementing Smart Start has not been easy. The fast pace of the initiative required counties to develop a plan and begin providing services almost immediately after the grant was awarded. This time line put a lot of pressure on local partnerships and the state administrative office.

While local partnerships have been creative in spending Smart Start funds, the initiative has yet to succeed in changing the large, categorical funding streams that support most services for children and families. Systems reform and interagency collaboration in the state and federal government are necessary to achieve this level of change.

Other Sites With Similar Strategy

Smart Start is unique in its scope, diversity of services and level of funding. A number of states have developed initiatives that encourage and support community planning and service integration. However, most of these efforts are either small demonstration programs or statewide initiatives that encourage collaboration but do not provide additional, flexible funds. A source for further information is the recent publication, *Map and Track: State Initiatives for Young Children and Families,* available from the National Center for Children in Poverty.

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FINANCING CHILD CARE THROUGH PUBLIC-PRIVATE PARTNERSHIPS

The T.E.A.C.H. Early Childhood® Project (North Carolina)

Description

The T.E.A.C.H. (Teacher Education and Compensation Helps) Early Childhood® Project provides educational scholarships for child care teachers, center directors and family child care providers statewide. Under the T.E.A.C.H. Early Childhood® umbrella, scholarships partially fund the cost of tuition, books and travel for individuals who are interested in achieving formal education leading to the attainment of the North Carolina Child Care credential, the Child Development Associate (CDA) credential, and associate and bachelor's degrees in child development. Wage increases or bonuses are provided upon completion of an agreed-upon number of course hours or upon attainment of the North Carolina Child Care credential. Some scholarships also provide paid release time.

When Established

The project was piloted in 1990 and provided scholarships for 21 child care providers in that year. By 1995, more than 2,000 child care providers were participating in the program.

Amount Generated Annually

The amount of funding varies annually, and represents a combination of both private and public dollars. The project has received allocations of between $850,000 and $1,000,000 of state funds for each of the last three years. Additionally, the project has received federal funds from the Child Care and Development Block Grant, corporate and foundation grants, and partnered dollars with participants in the program.

Services Funded

All scholarships funded through the T.E.A.C.H. Early Childhood® Project provide partial funds for tuition and books and include a travel stipend. Some scholarships provide partial reimbursement to child care center sponsors or direct payments to family child care providers for release time. All participants who successfully complete their contract receive either a raise or a bonus.

How Funds Distributed

Once awarded a scholarship, recipients are allowed to charge their tuition at their respective educational institutions. They are reimbursed for the cost of their books, minus their share of the cost of tuition and books, and receive a quarterly or semester travel stipend.

Sponsoring programs are billed for their share of tuition and are reimbursed for release time given to scholarship participants. Family child care providers also are reimbursed for release time taken. Bonus awards or raises are paid directly to the scholarship participant either from their sponsoring program, the T.E.A.C.H. Early Childhood® Project or a combination of the two.

Population Served

Scholarship eligibility is extended to center-based teachers, directors and family child care providers who work 20 to 30 hours per week in a regulated child care setting in North Carolina.

Strategic Considerations

Inception of the T.E.A.C.H. Early Childhood® Project was based on research about North Carolina's early childhood workforce. The project was established to: increase the knowledge base of child care staff and therefore improve the quality of early care and education that children receive; encourage child care programs to support continuing staff education; offer a sequential professional development path for child care personnel; link increased compensation to training; reduce staff turnover; and create model partnerships focusing on improving the quality of child care. The T.E.A.C.H. Early Childhood® Project has received bipartisan support because it helps teachers and family child care providers help themselves. Other strategic considerations include:

- T.E.A.C.H. isn't perceived as "big government running programs." The focus is on providing a framework to help community-based organizations and individuals work together to solve problems. The T.E.A.C.H. Early Childhood® Project is flexible enough to adapt to individual needs and circumstances.
- Funds are available in almost every county in the state and use broad eligibility criteria for scholarship recipients (including staff in many Head Start, nonprofit and proprietary child care programs), thereby reaching a broad constituency.

- Child care quality is raised without significantly increasing parent fees and without more regulations.
- Funds are leveraged from the private sector.
- Direct incentives are provided for the higher education system to become more responsive to the educational needs of the child care workforce. (Early childhood courses are given by—and tuition paid to—community and technical colleges across the state.)

Other Sites With Similar Strategy
A license to replicate the T.E.A.C.H. Early Childhood® Project has been issued to not-for-profit organizations in Georgia, Florida and Illinois. Several other states are exploring the feasibility of pursuing a license to replicate the project.

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FINANCING CHILD CARE THROUGH PUBLIC-PRIVATE PARTNERSHIPS

Rochester/Monroe County Early Childhood Development Initiative (New York)

Description
The Rochester/Monroe County Early Childhood Development (ECD) Initiative was developed to promote broad commitment and collective responsibility for early childhood development. ECD has established and implemented a broad-scale, priority-based agenda to support child development services in the county. The members of ECD now participate in an annual collaborative process of reviewing local needs, gaps and resources. The group works together to develop community solutions for the highest-priority problems. These solutions include collaborative approaches to financing, implementing, evaluating and monitoring services.

When Established
The Early Childhood Development Initiative began in 1990.

Amount Generated Annually
In 1994 financial participation of the ECD partners was estimated as follows:

Federal child care funds (including Head Start)	$ 6,000,000
State and county child care funds	20,000,000
School district funds (federal/state/local)	6,400,000
City child care funds	200,000
Rochester United Way	4,000,000
Diocese of Rochester (including private grants)	2,000,000
Grantmakers Forum (local foundations, etc.)	400,000
Total third-party contributions	$39,000,000
Estimated parent fees	35,000,000
Total contributions	$74,000,000

Services Funded
Expanded early childhood care and education services in a wide range of settings (including reduced waiting lists and increased reimbursement rates for child care subsidies); grants to help centers and homes obtain National Association for the Education of Young Children (NAEYC) accreditation;

Public/Private Partnerships

scholarships to help staff obtain Child Development Associate credentials; a Home Instruction Program for Preschool Youngsters (HIPPY) to increase in-home support for parents as teachers; start-up funds for new child care facilities; family learning centers in two city schools; comprehensive model programs in the northeast and southwest quadrants of the city; a "transportable" Montessori facility offering prekindergarten for 80 children; an ECD awareness campaign; and new associations to promote the use of the arts in child development and to bring science and technology into the preschool curriculum. Planning and evaluation tools also were developed, including an annual budget strategy, a retrospective analysis of ECD's impact on 400 young children, and community quality standards. A longitudinal evaluation of 4,000 children is planned.

How Funds Distributed

Funds are not pooled. Partners administer their share of the funds based on the annual commitment of their respective organizations and informed by the priorities and analysis of ECD. Local funders occasionally collaborate on projects that none are prepared to finance alone. When collaborative projects occur, one partner is selected as the "working interface" with the service provider or lead agency. State, county and diocese funds are administered as vouchers; United Way funds, as vouchers or grants; Head Start, city and other grantmakers' funds, as grants or contracts. Parents apply for child care assistance at the county social services department and/or at the early childhood program they use.

Population Served

Members of ECD have agreed to target funds based on the following priorities: 1) inner-city, at-risk three- and four-year-old children; 2) three- and four-year-old children county-wide; 3) inner-city, at-risk infants, toddlers and school-age children; and 4) infants, toddlers and school-age children county-wide. To the extent possible, the eligibility criteria used by each member are structured to meet these goals. (Income eligibility for child care assistance from Department of Social Services and United Way is capped at 200 percent of poverty, or approximately $26,200 for a family of three.)

Strategic Considerations

Members of the ECD Initiative were initially convened (by Rochester Mayor Thomas P. Ryan) to consider the conclusions and recommendations developed by a special task force and corroborated by a demographic study done by the Center for Governmental Research (both funded by the Rochester Area Foundation). The group was charged with developing a feasible strategy that would advance the community agenda, including practical funding recommendations. It became evident that progress on early childhood development issues required concurrence on priorities, and that no participant standing alone could finance—or gain the commitment of community leaders to finance—the necessary array of projects. Important elements of this collaborative strategy include the following:

- ECD is a "neutral" body, with a volunteer facilitator and no single sponsor or funder. Members of the group were pushed to think systemically, maintain communication and work together.
- Thinking—and working—systemically required the members of ECD to focus on services rather than providers. This distinction has been critical to the approach to program evaluation and systems change. In some cases, this focus changed the relationship between funders and service providers, and fostered new approaches to accountability and fund allocation. While this has been a difficult process at times, most members feel that it has strengthened the provider community, the funders and those involved in local policy development.
- The process resulted in a community-wide plan—and increased funds—for early childhood services with clearly defined roles and levels of financial contribution from each partner. However, the planning process is dynamic and has been able to change as federal, state and local needs and investments in early childhood services have changed.
- Despite the focus on collaborative planning, limited funds and a growing demand for services have forced the group to make difficult compromises. For example, ECD negotiations recently resulted in revisions to the United Way child care scholarship program that lower reimbursement levels and raise parent fees.

- ECD was never conceived as a permanent body. One of its key aims was to "go out of business" once it had succeeded in establishing an ongoing process of strategic, collaborative planning. To this end, the group has recently agreed to merge with a new, systems reform–oriented community effort (called the CHANGE initiative) linked to the public schools. Some ECD members have key roles in that initiative, and the facilitator became the ECD Coordination Team chairman.

Other Sites With Similar Strategy
The United Way and the Oregon Community Foundation both use the Oregon State Benchmarks to help focus their grantmaking activities. The Charlotte-Mecklenburg Children's Services Network (an interagency, public-private collaboration) facilitates planning and resource allocation in Mecklenburg County, North Carolina. Community planning efforts are occurring in cities and counties across the country. Unfortunately, information indicating whether these efforts have fostered a systemic approach to planning and resource allocation is not available.

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Financing Child Care Facilities

Financing Child Care Facilities

Most large and small businesses borrow funds when they need to improve or expand their facilities. Child care businesses, though—especially those in nonprofit programs located in low-income neighborhoods—often have trouble securing loans. There are several reasons for this lack of creditworthiness. First, many child care programs were established in space that was donated or made available to them at reduced rent, and the rates they charge are based on these low occupancy costs. In these cases, incurring debt means raising parent fees or securing increased reimbursement rates from the government agencies that subsidize child care. Second, child care programs often do not have the equity they need to secure a loan. Third, child care operators typically know more about teaching young children than about financial management, fund-raising, or facility construction or renovation.

Because so many child care programs find it difficult to carry debt, a number of states and communities have developed grant programs to help address the need for more and better child care facilities. Several strategies have been used to generate funds for child care grantmaking. Minnesota uses funds from the issuance of general obligation bonds; child care is one of many uses of bond proceeds. Approximately every two years, the state of Minnesota sells bonds and uses a portion of the proceeds to provide grants to help build or renovate child care facilities. Each year, state funds are appropriated to repay the bond debt. Illinois has used tax-exempt bonds to finance the construction of child care facilities. Rather than issuing the bonds itself, the state worked with an intermediary organization, which sold the bonds and takes responsibility for repayment. Illinois annually appropriates funds to this organization to repay the bond debt. Many states, such as New York, simply allocate a portion of state general funds to support grants for child care facilities. Each of these grantmaking strategies is described in more detail in the attached summaries.

Some child care programs can carry debt, but they need help securing loans and negotiating the world of capital finance. Child care centers that serve middle- and upper-income families and charge substantial fees, as well as Head Start and child care programs that have stable government funding, are examples of programs that have been able to secure loans. Several strategies have been used to help these small businesses to obtain loans. Maryland has established a state loan guarantee program, through which state funds are appropriated, invested and available to repay a commercial loan made to a child care business if default occurs. State general funds also support two revolving-loan programs that are administered by the state and can supplement private loans or grants. Ohio also appropriated state general funds for child care lending, but rather than administer the funds itself, the state has the funds administered by a private-sector community development corporation (CDC). The CDC uses many investment strategies, including "linked deposits," to encourage private banks to make loans to Head Start and child care programs. North Carolina also appropriated state general funds to an intermediary organization, Self-Help, a large, statewide community development financial institution. The District of Columbia participates in a public-private partnership in which public funds are used to help leverage, guarantee and administer loan funds from commercial lenders. Each of these child care lending strategies is described in more detail in the profiles that follow.

Examples of Facilities Financing Strategies

State Financing Strategies as Grants:
General obligation bonds (Minnesota)
Tax-exempt bonds (Illinois)
Child care center start-up and health and safety grants (New York)
Family child care start-up and health and safety grants (New York)

State Financing Strategies as Loans:
State loan guarantee program (Maryland)
State direct loans (Maryland)
Special revolving loan fund (Maryland)
Community development financing (North Carolina)
Linked deposits (Ohio)
Commercial lender–public-sector partnership (District of Columbia)

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These profiles represent a few of the most common strategies used to generate funds for the development of child care facilities. They are by no means the only strategies. Facilities financing is very complex, and it must be tailored to the unique strengths and needs of a particular child care program and the financial resources available in a specific community or state. Financing the cost of building or renovating a child care facility typically requires a number of different strategies that, depending upon the size of the effort, may be used independently or in coordination. Large construction projects generally rely on a "package" of different grants and loans. Putting this package together requires strong business acumen and skill in negotiating financial markets.

Technical assistance is crucial to child care facilities financing. Child care programs must carefully prepare the materials they submit to lenders and/or grantmakers, who will scrutinize the child care program's current business practices and assets, as well as its proposed plans and cost estimates. Many child care programs need help in preparing for this review process. Successful facilities financing strategies offer child care program operators a range of technical assistance services as well as help in identifying and packaging multiple sources of funding.

Citywide, regional and statewide community development financial institutions (CDFIs), which were established to help generate new sources of capital to support redevelopment of housing and economic development in low-income communities, have become more involved in child care lending. Intermediary organizations like community development corporations, which generally focus on economic development and housing issues in economically distressed communities, are important resources as well. States are increasingly recognizing the unique role these agencies can play in helping to finance child care facilities, and many of the organizations have begun to work together nationally to identify common needs and share information. A National Children's Facilities Network has been established (see Appendix 4 on page 127 for a membership list). Additionally, the Center for Policy Alternatives has begun to work on a national database to document the performance of various child care loans. This database will soon be available on the World Wide Web. (See page 112 for information on how to contact the Center for Policy Alternatives.)

FINANCING CHILD CARE FACILITIES

General Obligation Bonds (Minnesota)

Description
General obligation bonds are repaid from the tax base of the governmental body issuing the bonds. In other words, a government entity sells the bonds, uses the proceeds to support one-time capital costs and then allocates a portion of its annual revenue to pay toward the debt each year. General obligation bonds are often used to finance prison expansion or public utilities (such as water and sewer systems). The state of Minnesota has used proceeds from its general obligation bond issuance to help pay for Head Start and other early childhood learning facilities.

When Established
Minnesota first used funds from general obligation bonds to support capital costs for early childhood learning facilities in 1992. Funds from the 1994 and 1996 bond issuances also were made available.

Amount Generated Annually
In 1992 and 1994, $2 million from the general obligation bond issuance was made available to support capital costs in early childhood learning facilities. It is anticipated that the 1996 allocation will be at least $2 million.

Services Funded
Grants of up to $200,000 are awarded to school districts or cities to support the cost of constructing or renovating early childhood learning facilities. The facility must be owned by a public entity and used primarily to provide Head Start, Early Childhood Family Education or early childhood special education services.

How Funds Distributed
Requests for capital grants are submitted to the Department of Economic Security. The Departments of Administration and Finance review applications and business plans. Chairs of the Senate Finance and House Ways and Means committees approve final selections. Approximately 12 grants are awarded each biennium. The public entity that receives bond funds builds or renovates the facility and either operates the program itself or rents the facility (at minimum cost) to a nonprofit group that provides Head Start, Early Childhood Family Education or early childhood special education services.

Population Served
The facilities serve children and families who participate in Head Start and/or the Early Childhood Family Education program, as well as families who have children with disabilities and are eligible for early childhood special education services.

Strategic Considerations
Minnesota has allocated state funds to supplement and expand the Head Start program (approximately $11.5 million each year). Additionally, the state has established the Early Childhood Family Education program, which operates in 360 school districts and offers a range of early childhood learning activities to children at all income levels. Combined state and local funding for the program is currently over $30 million annually. The bond funds are targeted to these programs, as well as early childhood special education services. In considering this strategy, the following issues should be explored:

- Proceeds from the general obligation bond issuance may be granted only to public entities (typically school districts or local governments) and are limited by the legislation to "early childhood learning facilities," a definition that excludes most nonprofit and proprietary child care programs unless they are operating programs in facilities that are owned by public entities.
- The bond funds may not be used to support renovation or construction of facilities that are used primarily for school-age child care.
- While school districts or local governments typically rent their facilities at very reasonable rates, bond funds cannot be used to help community-based organizations purchase facilities. Head Start and other early childhood learning programs that are operated by community-based organizations that wish to buy the facility in which they have been paying rent must pay fair market value for the facility.
- The requirements for receiving bond funds are quite significant and can be time-consuming. The slow pace at which funds are released has been frustrating for some program operators.

Other Sites With Similar Strategy
Massachusetts is currently attempting to pass legislation authorizing a general obligation bond issuance to help finance early childhood care and education facilities.

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FINANCING CHILD CARE FACILITIES

Tax-Exempt Bonds (Illinois)

Description
The Illinois Facilities Fund (IFF) borrowed funds through tax-exempt bonds for the purpose of constructing five and renovating two child care centers in Illinois.[1] The bonds were purchased by private investors and were secured by an equity contribution from the IFF, a debt service reserve fund raised by the IFF and a commitment by the Illinois Department of Children and Family Services to repay the debt over 10 years, subject to annual appropriation. The IFF owns the buildings (although ownership will revert to the child care programs when the mortgages are repaid) and leases them to child care providers for $1 per year. The IFF is completely liable for the debt if the state is unable or unwilling to pay.

When Established
The bonds were issued in November 1992. Land acquisition and design began immediately. The first building opened in September 1992, and the sixth opened in April 1993. The seventh, which was held up due to environmental problems, opened in early 1994.

Amount Generated Annually
The IFF bond issuance was for $13 million. Additional fund-raising was required from the child care providers (10 percent of construction costs), and other construction funds were raised by the IFF. In total, the programs attracted $24 million, including $4 million for a primary health clinic in one of the buildings. Each year, the Illinois Legislature allocates approximately $1.5 million to repay the debt. Additionally, the state made grants to the IFF totaling $900,000 over three years (1991-93) to cover the administrative costs of the program and the cost of creating management systems for the centers.

1. The Illinois Facilities Fund is a community development financial institution that makes loans to Illinois human services agencies that rely on government contracts and are unable to obtain other financing. Additionally, IFF provides management-skills programs, construction oversight and other technical assistance to its borrowers and child care partners. Overseeing the financing and development of the seven child care centers discussed in this profile is one of many projects sponsored by the IFF.

Services Funded

The bond issue funds covered all costs associated with design and construction of five new buildings and renovation of two buildings.

How Funds Distributed

A request for proposals was issued jointly by the Illinois Department of Children and Family Services and the IFF. An internal committee, a screening committee and a final panel were used to select the child care providers who received the buildings.

Population Served

The child care centers housed in the buildings serve low-income working families and, in the case of four Head Start classrooms, families who qualify for Head Start.

Strategic Considerations

Unlike general obligation bonds, which are owned by the governmental body issuing them, this strategy relies on bonds that are owned by a "conduit," in this case, the Illinois Facilities Fund. In considering this strategy, the following issues should be explored:

- A strong, experienced intermediary is crucial to the success of this strategy. The conduit selected to sell the bonds and build the facilities—the Illinois Facilities Fund—had extensive expertise and a record of accomplishment in other financing efforts.
- Strong commitment from the private sector also was important to the success of this strategy. The IFF was created by the Chicago Community Trust, which also provided a $2 million grant to serve as equity. A $1 million loan from the Illinois Development Finance Authority was secured as reserve funds. Foundation funding also covered the cost of early planning and implementation.
- Each year, the state of Illinois appropriates funds—in addition to the funds allocated for child care subsidies—to repay principal and interest on the IFF debt. It is unlikely that an intermediary organization would assume this level of risk without this commitment of state funds.
- Economies of scale are important. The decision to design and build seven centers at once resulted in an estimated savings of $700,000.
- Child care programs that carry significant debt must have effective fiscal management procedures in place to ensure that cash flow is available to repay the loan. Many child care programs do not have fiscal expertise. IFF has played a crucial role in strengthening the fiscal management capacity of the programs it finances.
- The multimillion-dollar buildings—which are located in very low income neighborhoods plagued by poverty, drug abuse and violence—provide more than child care and Head Start. Some are family centers; one houses a health clinic; many have served as an important "anchor" and spurred additional development in the community.

Other Sites With Similar Strategy

The Hawaii legislature recently approved the issuance of tax-exempt revenue bonds for child care center construction and renovation.

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FINANCING CHILD CARE FACILITIES

Child Care Center Start-up and Health and Safety Grant Programs (New York)

Description
New York State currently has three grant programs to help support the cost of starting new child care centers and helping existing centers to assure the health and safety of the children being served. The programs include: 1) predevelopment planning grants (up to $75,000 per project); 2) child care center start-up and expansion grants (up to $100,000 for full-day programs and $25,000 for part-day programs for school-age children); and 3) health and safety grants for existing child care centers (up to $10,000).

When Established
New York established its first child care start-up grants program in 1984, when the state legislature appropriated $600,000 to help start new school-age child care programs. Since that time, a number of different child care grant programs have been added and revised.

Amount Generated Annually
In 1996, up to $750,000 was made available for predevelopment planning grants, up to $1.8 million for start-up grants and up to $900,000 for health and safety grants. In prior years, annual appropriations for child care center start-up, expansion and facility improvement grants combined have fluctuated from a high of $11.2 million in fiscal year 1991-92 to a low of $1.8 million in fiscal year 1992-93.

Services Funded
Predevelopment planning grants may be used for design studies, site assessment, architectural/engineering fees, financial planning, fund-raising and other predevelopment work. Start-up/expansion grants may be used for planning and setting up program environments, hiring staff, purchasing supplies and equipment, recruiting children, and minor remodeling that is necessary to comply with housing, fire safety or other regulatory requirements. Health and safety grants may be used to address newly identified fire, health and safety issues in existing facilities as well as to conduct minor remodeling to make the program more accessible to children with disabilities.

How Funds Distributed
The Department of Social Services (DSS) issues a request for proposals, reviews applications and makes the final selection. The department then executes a contract with the applicants selected for funding.

Population Served
Incorporated nonprofit and proprietary child care programs as well as public agencies and local governmental units may apply for start-up and health and safety grant funds. Nonprofit organizations may apply for predevelopment planning grants. Priority is given to projects that: serve low-income families who receive child care subsidies or public assistance; serve special high-need populations; provide care during nontraditional hours; and are located in empowerment zones, enterprise communities, economic development zones, or adolescent pregnancy prevention and services sites.

Strategic Considerations
The child care grant programs described above are, by and large, limited to minor renovations and the "soft" costs associated with planning and opening a child care program. Funds to help pay for the "hard" costs of building or renovating a child care facility may be obtained from several other grant and loan programs in New York State. One example is the Regional Economic Development Partnership Program administered by the Empire State Development Corporation. This program is designed to "foster economic growth, strengthen economic vitality, and...create new job opportunities" in a wide range of businesses. Child care grants and loans are an allowable activity under this program. In addition to "generic" grant and loan programs designed to spur economic growth, from time to time funds specifically targeted to child care are made available within the state's Department of Economic Development. In state fiscal year 1994-95, for example, $4 million was made available to support grants for child care capital construction. These funds were used to help finance 12 projects. An additional $1 million was allocated in state fiscal year 1995-96, and will be used to support a few more child care projects. Additional issues to consider when exploring the feasibility of replicating the approach used in New York State include the following:

- While a number of different grant programs are available in New York to help support the cost of renovating or building a child care facility, these programs are administered by different government entities. None of these agencies has the time, resources or expertise to help pull together the package of grants and loans that are typically necessary to fully finance a project. The Department of Social Services and the Empire State Development Corporation requested proposals for the start-up and construction grants at different times, making it difficult to use the predevelopment planning grants as a "first step" for construction loans and grants, or to coordinate the various grant programs.
- Organizations that seek to develop, expand or improve child care programs often need technical assistance in a host of areas, including capital financing, design, program planning and so forth. Technical assistance of this sort was not built into any of the New York State grant programs. As a result, a number of the applications received by the state agencies (particularly requests for capital construction grants or loans) are of poor quality and cannot be funded.
- The child care start-up grants awarded by the Department of Social Services typically represent only a small portion of the overall financing package necessary to start a new child care program. Organizations that apply for these funds must also raise (or borrow) large sums from other sources. It can be difficult for a state-level entity like DSS (with limited staff and limited expertise in facilities development or small business financing) to assess whether a potential applicant can operate a strong, viable business and can secure the funds necessary to complete the project.

Other Sites With Similar Strategy

At least 21 jurisdictions (including Alaska, California, Delaware, Indiana, Kentucky, Louisiana, Nebraska, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, South Dakota, Tennessee, Washington, West Virginia, Wisconsin, Wyoming, the District of Columbia and Guam) have established some form of grant program for child care centers and/or home providers. Most of these programs make very small grants available for minor renovations, equipment purchase or program improvements. The grant programs are typically administered by a state agency and are generally not linked to larger sources of funding for capital construction. A few states (including North Carolina, Ohio and Illinois) have chosen to administer these programs through a community development financial institution (CDFI) or community development corporation (CDC) that is able to "package" the funds with other grants and loans and provide in-depth technical assistance and support. A list of community-based "intermediary" organizations that target child care is included in the appendix on page 127 of this report.

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FINANCING CHILD CARE FACILITIES

Family Child Care Start-up and Health and Safety Grant Program (New York)

Description
New York State has established a grants program to help family child care (up to eight children) and group family child care (up to 14 children) providers conduct quality early childhood development programs. Grants of up to $500 per home may be used to cover start-up costs or to help existing providers ensure the health and safety of children in their care. This grants program is administered by local organizations (primarily child care resource and referral agencies) that have the capacity to recruit new providers, assist them in starting a child care business and provide continued technical assistance. Grant funds to partially support the cost of technical assistance staff and overhead are made available to the local agencies that administer the family child care grants program.

When Established
The New York State Legislature first established a start-up grants program for family child care providers in 1987.

Amount Generated Annually
In 1996, $2.6 million was made available for this program.

Services Funded
New family child care providers may use these funds to purchase the equipment, toys and supplies they need to open a family child care home. Existing family child care providers may used the funds for health and safety items such as fire alarms or smoke detectors, window guards, outlet covers, first aid kits, medical examinations, water testing, cribs and some educational supplies.

How Funds Distributed
The Department of Social Services (DSS) issues a request for proposals to community-based organizations seeking to administer the program. DSS staff review proposals and select a single entity in each geographic area to administer the funds. The department then executes contracts with these agencies to administer the program. Local administrative agencies are responsible for recruiting family child care homes, providing technical assistance and awarding mini-grants to eligible family-based child care programs.

Population Served
Mini-grants are awarded to family child care and group family child care homes that serve primarily low-income families who receive subsidized child care. Local agencies that administer this program must have a strong relationship with the local department of social services and demonstrated experience in recruiting and supporting family child care homes.

Strategic Considerations
- Using local organizations (such as child care resource and referral agencies) to administer this program is an effective strategy. These agencies have the capacity to recruit new providers, assist them in starting a child care business and provide the continued technical assistance they need to provide quality child development services. Additionally, it is difficult for a state agency to administer mini-grants. (State contracting procedures are not designed for such small grants, making administration cumbersome and expensive.)
- Many family child care providers (especially those that serve low-income families) are unable to carry debt. Making small, targeted grants (rather than loans) to these providers is an effective way to increase the supply of child care.
- The mini-grants initially were limited to start-up costs. Local administrative agencies and licensing staff reported, however, that many existing family child care providers needed to address health and safety concerns but did not have the funds to do so. As a result, the program was expanded to include these providers.

Other Sites With Similar Strategy
At least 21 jurisdictions (including Alaska, California, Delaware, Indiana, Kentucky, Louisiana, Nebraska, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, South Dakota, Tennessee, Washington, West Virginia, Wisconsin, Wyoming, the District of Columbia and Guam) have established some form of child care grant program. Many of these programs make funds available to family child care homes. The extent to which these states use local agencies to administer the funds is unknown. Private-sector partners—such as employers—often make small grants available to family child care homes, and typically use local child care resource and referral agencies to administer these funds. (For further information on private-sector initiatives, see the sections on Employers/Unions and Public-Private Partnerships in this report.)

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FINANCING CHILD CARE FACILITIES

State Loan Guarantee Program (Maryland)

Description
The Maryland State Loan Guarantee Program is designed to help day care programs (including child care centers and facilities that provide day care for disabled adults and the elderly) obtain loans from commercial lending institutions. The state will guarantee up to 80 percent of a loan. Interest rates are set by the lending institution and are usually about 2 points above the prime lending rate. The size of guarantee portion varies widely. The program has guaranteed loans as small as $15,000 and as large as $1.6 million.

When Established
The loan guarantee program was established by the legislature in 1984.

Amount Generated Annually
The state legislature initially appropriated $750,000 for the program. Since 1984, several additional appropriations have been made. Additional income has been generated from guarantee fees and interest on investments. While the law permits these funds to be leveraged up to five times, the Maryland department of Business and Economic Development has elected to limit guarantees to three times its fund balance. The department is currently able to guarantee loans that total up to $6.2 million.

Services Funded
Guaranteed loans may cover the cost of construction, renovation, equipment, supplies and some of the working capital necessary to develop or expand a facility that provides care for children, the elderly or disabled persons of all ages.

How Funds Distributed
A loan agreement is executed between a commercial lender and the day care program, backed by the guarantee. The state treasurer's office invests the funds used to guarantee the loans. Invested funds are held in a separate account and earn interest.

Population Served
Maryland has guaranteed loans to a wide range of child care centers, including nonprofit and for-profit programs as well as Head Start. Many of the loans have been for expansion projects.

Strategic Considerations
Maryland has not experienced a single default since the program was established, although it does have several loans in the "work-out" process. (This means that the state currently is working with the borrower to restructure the loan.) Other considerations include:

- State loan guarantee programs can be an inexpensive way to help day care programs obtain loans in the commercial market. However, loan guarantee programs do not create capital for loans or ensure lower interest rates.
- A loan guarantee program is relatively easy to administer, and it may be combined with other private and public funds to help finance capital construction.
- While not all child care programs may be able to participate in a loan guarantee program, child care markets are diverse enough that some providers will find the program helpful. Some states have found that loan guarantee programs are used primarily by proprietary child care programs that can charge high parent fees, although Maryland has not found this to be the case.

Other Sites With Similar Strategy
Arkansas, California, North Carolina and Tennessee currently have state loan guarantee programs. In New York, the Chase Community Development Corporation has used guarantees from the State of New York Mortgage Agency to support child care construction lending.

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FINANCING CHILD CARE FACILITIES

Child Care Facilities Direct Loan Program (Maryland)

Description
The Child Care Facilities Direct Loan Program uses funds appropriated by the state legislature to make loans at or below the prime lending rate. Loans with repayment schedules of up to 20 years may be secured for up to 50 percent of the cost of building or renovating a child care facility.

When Established
The program was established in 1988 and initially limited loans to 20 percent of the hard cost (that is, the cost of construction, renovation and equipment fixed to the building). No loans were issued in the first year. In 1989, the program was revised to allow loans of up to 50 percent of the hard costs. The first loan was issued in 1989.

Amount Generated Annually
$1.75 million was appropriated by the legislature for the program in the first year, and additional appropriations followed in subsequent years. These funds have been further augmented by interest and loan fees. At present, the fund has $1.8 million available. The smallest loan awarded to date has been for $35,000. The largest has been for $350,000. The average loan is for approximately $200,000.

Services Funded
The loan fund is limited to construction and renovation costs. Equipment that is fixed to the building may be included, but all other equipment, supplies and start-up costs are excluded.

How Funds Distributed
Applications are submitted to the Maryland Department of Business and Economic Development, Day Care Financing Programs. Staff review business plans. An independent committee authorizes financial participation in the program. Once approved, the loan payments are processed by the department's Loan Administration Unit.

Population Served

Both nonprofit and proprietary child care centers are eligible to apply for the loan funds. (Family child care providers are not eligible for the program.) Since loans may be for no more than 50 percent of the total project cost, applicants must have secured—or identified a source for—the remaining funds. Applicants who apply for both a direct loan and a loan guarantee may borrow no more than 20 percent of total project costs under the direct loan program.

Strategic Considerations

The program was established because the state legislature wanted to ensure that an affordable source of capital funds was available to support the cost of constructing or renovating child care facilities. The Maryland Department of Business and Economic Development has found that, while not all child care programs may be able to carry debt, child care markets are diverse enough that some providers will find the program helpful. Packaged together with the loan guarantee program, direct loans help to make lower-cost capital funds available to child care centers.

Maryland has not experienced any defaults since the program was established, although it does have several loans in the "work-out" process. (This means that the state is currently working with the borrower to restructure the loan.)

Other Sites With Similar Strategy

Virginia has a similar child care loan program administered by the state. Other states may have "generic" business development initiatives that make loans to child care businesses. (The Regional Economic Development Partnership Program administered by the New York State Department of Economic Development is one example.) North Carolina has awarded funds to a community development financial institution (the North Carolina Community Facilities Fund) to administer a child care loan program.

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FINANCING CHILD CARE FACILITIES

Special Child Care Revolving Loan Fund (Maryland)

Description

The Special Child Care Revolving Loan Fund was designed to provide low-cost, short-term loans to help cover the cost of minor renovations in child care facilities and small group day care homes. The minimum loan that may be approved is $1,000, and the maximum is $10,000. Although the loans typically are made at the prime lending rate, lower rates are available for providers serving targeted populations such as low-income families, teen parents and children with disabilities.

When Established

The program was established in 1992.

Amount Generated Annually

The Maryland Department of Human Resources has allocated a portion of federal Child Care and Development Block Grant (CCDBG) funds for the loan program in each of the past five years. Allocations have ranged from a low of $62,000 in state fiscal year 1995 and state fiscal year 1996, to a high of $125,857 in state fiscal year 1994.

Services Funded

Loans may be secured for minor renovations necessary to meet licensing requirements, make the facility accessible to the handicapped, improve the structure or program, and so forth.

How Funds Distributed

Applications are submitted to the Maryland Department of Business and Economic Development. The department reviews and approves all applications. An independent approval committee authorizes financial participation. Once approved, the loan payments are processed by the department's Loan Administration Unit.

Population Served

Child care centers and small group day care homes (those with more than eight children). Family child care homes are not eligible for the revolving loan fund.

Strategic Considerations

The legislature and the Maryland Department of Human Resources established the loan program because they wanted to maximize the use of CCDBG funds available for quality improvement and recognized the need for financing to help child care programs improve their facilities. A revolving loan fund was appealing because it did not require a large appropriation and could potentially be self-supporting as loans were repaid.

The Department of Business and Economic Development has found this program to be more labor-intensive than the other loan programs it administers. Greater staff time is required because the loans are smaller, there is a greater number of transactions and, in some cases, the loans incur more risk (requiring staff to become involved in "work-outs" or defaults).

A number of child care programs that received loans under this program were unable to repay the loans. Unanticipated reductions in enrollment, which resulted in lower revenue, were the primary reason given for default. Lower enrollment appears to have resulted from downsizing among local businesses and "freezes" or cuts in the subsidized child care system.

Other Sites With Similar Strategy

Virginia has a similar child care loan program administered by the state. A number of other states (such as North Carolina and Maine) have allocated funds to a community development financial institution or other community-based organization to administer a loan program for home-based child care providers.

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FINANCING CHILD CARE FACILITIES

Community Development Financing (North Carolina)

Description

The community development financing approach used by the Center for Community Self-Help (Self-Help) in North Carolina is supported with funds from three primary sources: 1) deposits to the Self-Help credit union; 2) grants (from foundations, individuals, government and others) for capital financing; and 3) program-related investments (PRIs). PRIs are zero- or low-interest investments or loans made by organizations or individuals that are used as capital and reloaned to community-based enterprises such as child care organizations. Self-Help makes loans—which range from $500 to a family child care home to $850,000 to help finance the cost of building a new child care center. Interest rates charged are at or slightly above the prime lending rate.

When Established

Self-Help—a statewide community development financial institution with five regional offices—was established in 1980. Although the organization had always financed child care under its small-business lending, in 1993, it decided to specifically target the child care industry.

Amount Generated Annually

To date, Self-Help has made approximately $3.5 million in loans to child care programs, and their lending in this area is growing rapidly.

Services Funded

Self-Help makes short- and long-term (up to 20-year) loans to early childhood programs throughout the state of North Carolina. Unlike most commercial lenders, Self-Help is willing to consider "risky" loans and provide technical assistance to potential borrowers. Technical assistance may include helping a family child care provider create their first budget; helping an organization seeking to build or expand a child care center put together a comprehensive financing package; making sure that child care programs that apply for loans know about the U.S. Department of Agriculture (USDA) child care food program and other public subsidies; and so forth.

Self-Help has produced a detailed reference manual entitled *The Business Side of Child Care,* which discusses a wide range of issues such as assessing business risk, estimating revenue and planning facilities, and it includes specialized spreadsheets that are also available on computer disk.

How Funds Distributed

Loan applications are submitted to Self-Help, which operates like a bank and administers all aspects of the loan, including processing payments and working with borrowers who are having difficulty repaying the loan.

Population Served

Self-Help makes loans to early childhood programs of all types and sizes, including nonprofit, church-based and proprietary child care and Head Start centers, as well as large and small family child care homes. Self-Help primarily meets the needs of child care borrowers who have the capacity to carry debt but have trouble obtaining a loan from a commercial lender.

Strategic Considerations

In 1993, Self-Help examined its small-business lending and realized that child care was the industry to which it had made the most loans. After a survey of child care providers, resource and referral agencies, and state child care personnel indicated that there was more than $80 million in loan demand in the child care industry, the organization decided to provide targeted loans and technical assistance to these providers. The effort has been very successful, and demand for child care loans has grown dramatically in recent years. In exploring the feasibility of replicating Self-Help's strategy in another jurisdiction, the following considerations should be explored:

- The community development financing strategy used by Self-Help is an effective way to help child care programs access capital. It does not, however, lower the cost of borrowing money.
- Economy of scale is an important factor. Credit union deposits and many PRIs are small or for short periods of time, and therefore they might not be a viable source of capital for the long-term loans many child care operators need. But Self-Help is able to combine small and short-term investments with other large, long-term investments that have been made to its institution. Additionally, Self-Help can package its loans with loans from other state and federal partners such as the Small Business Administration, Housing and Urban Development, the Rural Development Agency and others. (Self-Help also administers a child care loan fund for the state's Division of Child Development, which is funded with federal CCDBG dollars.) Taken together, these funds provide capital needed to offer both long- and short-term loans.
- Technical assistance is a crucial element of child care lending. Self-Help has the capacity and the commitment to provide intensive technical assistance to many of its borrowers.
- Self-Help has found the delinquency rate on child care lending to be higher than it is for other lending, but actual losses have been minimal. (Loan losses have represented only two-tenths of one percent of its portfolio.) Self-Help's management of the loans has been critical to ensuring that the funds are repaid. Not surprisingly, borrowers who provided child care to middle- and upper-income families had no delinquency problems, while the majority of those that aimed for a low-income clientele suffered delinquency problems. Self-Help also found that for-profit borrowers had more delinquency problems than nonprofits.

Other Sites With Similar Strategy

Community development financial institutions (CDFIs) have been established in many states and communities. (See appendix on page 127 for a list of "intermediary organizations" that focus on child care lending.) Some of these institutions are quite small and provide limited services to only one community or neighborhood, or they target specific areas of lending (such as low-income housing). Many do not have credit unions or the capacity to solicit program-related investments. But most large CDFIs (such as Coastal Enterprises, in Maine) use financing strategies similar to those described above.

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Community Development Finance Fund Linked Deposits (Ohio)

Description

"Linked deposits" involves depositing funds into a conventional lending institution for the specific purpose of encouraging the bank to loan funds at a reduced rate to a specific borrower. The Ohio Community Development Finance Fund (CDFF) has used this strategy to lower the cost of short-term construction loans made to nonprofit entities, including child care or Head Start programs.

When Established

In July 1995, the Ohio State Legislature appropriated $3 million for a child care facilities fund. CDFF was selected to administer the fund and to use the fund to leverage additional dollars from the private sector. Linked deposits is one of the strategies CDFF uses to help leverage funds.

Amount Generated Annually

The legislature made a one-time allocation of $3 million to CDFF.

Services Funded

Linked deposits currently are used to support short-term construction loans (of approximately six months' duration). Once construction is complete, the construction loan is converted to a mortgage. The mortgage is held by the lending institution and is an agreement between the Head Start or child care facility and the bank; CDFF is not involved in this aspect of the financing.

How Funds Distributed

CDFF makes a deposit in the bank, linked to a specific loan to a specific Head Start or child care program, at a specific interest rate, and incorporating any other specific concessions. The bank loans funds to the Head Start or child care program at a reduced rate. Interest on the deposit is used to help offset the cost of making a low-cost loan to the Head Start or child care program.

Population Served

CDFF serves nonprofit organizations that provide a wide range of community services, including child care. All of the child care and Head Start programs it assists serve primarily low-income families.

Comments:

Linking deposits is one of several financing strategies that CDFF uses to support capital financing in child care. CDFF provides Head Start training and technical assistance in financing and facilities development, and it also administers a special state-supported Head Start facilities planning grants program. Additionally, CDFF helps to administer funds that support local revolving loan funds for child care "micro-enterprises." The agency has recently developed a new "gap financing" loan program that will directly loan funds to help cover the gap between the mortgage secured by a child care or Head Start agency and the total cost of the construction or renovation project.

Strategic Considerations

The $3 million appropriation for the Ohio Community Development Finance Fund grew out of CDFF's experience in working with Head Start agencies and a growing recognition that additional funds were needed to support capital construction in Head Start and child care. Making decisions about the most appropriate strategy for financing child care facilities in various markets requires careful thinking and experience. One step builds on the next, and different strategies are appropriate in different situations. To more fully understand linked deposits and other strategies used by CDFF, the following issues should be considered:

- The decision to use a linked deposits strategy was based on CDFF's experience using a similar strategy in the area of low-income housing.
- CDFF is currently exploring ways to use the state appropriation as equity to support the issuance of securities (i.e., stocks) to capitalize the facilities fund. The agency has determined that an additional $3 million—bringing the total facilities fund to $6 million—will be needed to support a securities issuance. CDFF believes that $6 million in equity could support a securities issuance that would leverage $10 million a year.

- The decision to develop a "gap financing" loan program grew out of CDFF's research into what steps are necessary to establish the experience required to successfully issue securities to capitalize the facilities fund.

Other Sites With Similar Strategy
A number of other states and cities have used a linked deposits strategy to leverage funds for low-income housing and small business development. However, the Ohio Community Development Finance Fund appears to be the only entity using this strategy for capital financing in child care.

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FINANCING CHILD CARE FACILITIES

Commercial Lender–Public-Sector Partnership (District of Columbia)

Description
Using the inclusion of child care lending in the new Community Reinvestment Act regulations as an incentive, the Center for Policy Alternatives (CPA) brought together a consortium of 20 banks[1] in the Washington, D.C., metropolitan area to develop child care loans. A high-level, public-private advisory committee guides the work.[2] Local policy makers provide loan guarantees and technical assistance funding. Three products are included: 1) "mini" micro-loans (up to $1,500) to family child care providers; 2) micro-loans (up to $25,000) to nonprofit child care centers; and 3) real estate mortgage lending (up to $1 million) for major rehabilitation or construction of a child care facility. Interest rates on these loans are below prime, or at the lowest possible rate (but sufficient to cover administrative costs).

When Established
The initiative began in May 1995, with the mini-loan fund implemented in 1996. The other funds are still in the planning stages.

Amount Generated Annually
The bank consortium committed $350,000 for the "mini" micro-loan program and $2 million for the micro-loan program. The District of Columbia's loan guarantee for the "mini" micro-loan fund is $75,000 from the Child Care Development Block Grant (CCDBG) funds.

The banks will also donate $70,000 (20 percent of their loan funds) to support administration of the "mini" micro-loan fund and the provision of technical assistance to child care providers seeking loans. This contribution is matched with a $75,000 CCDBG grant to support technical assistance and training for participating providers. Additional funds for technical assistance to child care providers will be supported by local foundations.

1. Russell Simmons, senior vice president of Riggs Bank, is chair of the project's banker working group. Participating banks include: Citibank, NationsBank, First National Bank of Maryland, Crestar Bank and others.

2. James Gibson of the District of Columbia Agenda Project chairs the advisory committee. Representatives from the District of Columbia Board of Trade, the Metropolitan Washington Council of Governments, the Freddie Mac Foundation, the Metropolitan Bankers Group, the Washington Child Development Council and the Moriah Fund are among the committee members.

Services Funded
Loans are available to home-based and center-based child care providers for minor renovations, supplies, equipment, costs associated with program accreditation, lines of credit and other non-asset-based lending. (Micro-loans will be limited to nonprofit providers.) Technical assistance on finance issues will be provided by community development corporations (CDCs). Technical assistance on quality assurance will be provided by the Washington Child Development Council, a child care resource and referral agency.

How Funds Distributed
The $350,000 commercial lender commitment for the "mini" micro-loan program, the 20 percent set-aside and the $75,000 CCDBG grant for administration and technical assistance, will be transferred to the ARCH Development Corporation, for administration of the loan fund. The $2 million commercial lender commitment for micro-loans will be distributed by a consortium of community development corporations. Metropolitan Washington Bankers Group members will administer the child care mortgage loans. Technical assistance for quality assurance issues is handled through the Washington Child Development Council.

Population Served
The loan products will be available to a wide range of child care providers that serve families at all socioeconomic levels.

Strategic Considerations
The Center for Policy Alternatives worked for several years to ensure that the Community Reinvestment Act (CRA) include child care lending. The organization is now working with commercial lenders to encourage child care lending and leverage additional funds (in the form of loan guarantees, funds for technical assistance, and start-up and renovation grants, for example) from the public sector. In considering replication of this strategy, the following considerations should be explored:

- The high-level, public-private advisory committee created for this project was crucial to its success. The committee was able to help open doors, expand relationships and draw attention to the need for—and viability of—child care lending.
- The project focused on child care as an economic development effort with the potential to create jobs, generate tax dollars and contribute to the local economy, rather than as a request for funds for human services.
- In Washington, D.C., child care is estimated to be a $40 million industry.

Other Sites With Similar Strategy
In Ohio, Society Bank and Starting Points (a Child Care Resource and Referral Agency [CCR&R]) have joined forces to underwrite and administer a nonprofit loan fund for child care providers who do not qualify for traditional bank financing.

In Portland, Oregon, the Metro CCR&R agency finances child care through no-interest loans to providers. Metro pays the interest to the bank, and the provider pays the principal.

Colorado is exploring a multibank strategy for facilities financing.

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Washington, DC 20009
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Russell Simmons
Senior Vice President
Riggs National Bank of Washington, D.C.
Retail Banking Group
Community Reinvestment
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Washington, DC 20074-0796
Phone: (202) 835-5289
Fax: (202) 835-4955

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Appendix 1: Revenue-Generation Methods

Taxation

The public sector generates revenue primarily through taxation. Taxes are assessed based on what you own, spend and earn. Taxation occurs at all levels of government.

Types of taxes levied by various units of government

What you own

- property taxes on real estate
- personal property taxes
- motor vehicle taxes

What you spend

- sales taxes on purchases of goods and services
- excise taxes on specific goods (e.g., cigarettes, liquor, fuel) and services (e.g., hotels)

What you earn

- income taxes (personal and corporate)
- capital gains taxes

Local government (city, county, school district)

What you own

- property taxes (the major source of local revenue—over half goes to schools)

What you spend

- sales taxes—most states with sales taxes permit localities to levy additional sales taxes
- real estate transfer taxes

What you earn

- income taxes (17 states permit localities to tax personal and corporate income)
- capital gains taxes

State government

What you own

- personal property taxes
- motor vehicle taxes

What you spend

- sales taxes (45 states)—the major source of revenue for states
- real estate transfer taxes

What you earn

- income taxes (41 states)—individual taxes are the second-largest source of revenue for states
- capital gains tax

Federal government

What you own

- no national property tax

What you spend

- no national sales tax
- excise taxes (e.g., fuel, air travel, alcohol, cigarettes)

What you earn

- personal income taxes (the major source of federal revenue)
- corporate income taxes
- capital gains taxes

Fees

Public-sector revenue also can be generated by fees, which can be collected at any level of government but are more common at the local level.

- **Impact fees** anticipate the need for government services (e.g., roads, water, schools) that will result from actions by the private sector that will cause population growth, and are intended ot offset their costs.

- **Service fees** shift the cost (or part of the cost) from government to the user of a public service (e.g., mortgage/deed records, garbage collection).

- **Enterprise fees** are generated from a self-supporting enterprise created by government (e.g., municipal golf course, state lottery, national park) for which fees can be charged. The profits generated by the enterprise are used for other government expenses.

Appendix 2: Understanding Tax Strategies and the Powers of Government

TAX STRATEGIES

Many of the innovative mechanisms for financing child care profiled in this catalog involve taxes: new taxes, tax deductions, tax credits. In this appendix, basic tax information is provided, including a discussion of the control state government has over local revenue generation.

The federal personal income tax

The federal government imposes an annual income tax on the earnings of every individual resident and citizen of the United States. It derives about two-thirds of its revenue from taxes on personal and business incomes. Individuals are taxed on what is called their "taxable income," which is defined under federal income tax law as gross income minus allowable deductions.

Deductions are one way the federal government provides what can be thought of as tax subsidies. (The same is true for states that provide deductions or tax credits.) For example, federal law allows deductions for charitable contributions and home mortgage interest payments. It also allows deductions for what are called "personal exemptions," for the taxpayers themselves and for any of their dependents. Deductions are important to taxpayers because they usually reduce the amount of the income tax below what it would have been without the deduction.

Taxpayers also can receive tax subsidies through what are called tax credits. Federal law allows a tax credit for "dependent care," which is described more fully in the section on tax credits, deductions and exemptions. The earned income tax credit (EITC) is another example of a tax credit under federal tax law. Tax credits are subtracted from the tax otherwise owed by the taxpayer. Thus, in contrast to a deduction—which only reduces taxes owed by the amount of the allowable deduction (multiplied then by the taxpayer's applicable tax rate)—a tax credit effectively gives the taxpayer a dollar-for-dollar tax reduction. In general, therefore, tax credits are more valuable to lower-bracket taxpayers.

Finally, federal income tax law allows individual taxpayers to deduct the amount of certain state and local taxes they have paid from what they calculate to be their total federal taxable income, including the state and local personal income taxes they have paid and any local real property taxes they have paid. This deduction is available only for those taxpayers who are able to itemize their deductions, that is, those with deductions in excess of 7.5 percent of their income. If increasing certain state or local taxes to fund children's services is under consideration, the fact that taxes are deductible might be used as an argument to assuage those taxpayers who fight against tax hikes. Since only the higher-wage earners are able to itemize their deductions (two-thirds of taxpayers take the standard deduction), this argument will be most persuasive to higher-income voters.

State taxes

Historically, states have been responsible for the health, safety and welfare of their citizens (as contrasted with the federal government, which is the protector of citizens' national rights, e.g., voting, speech). Thus, states are free to tax their citizens as much as their elected officials are willing to allow. Most states, like the federal government, have a personal income tax. Together with corporate income taxes, they are a major source of state revenue. The other major source of state revenue is from sales taxes. States also rely on motor fuel taxes, motor vehicle taxes and license taxes to generate revenue. As federal grants-in-aid to states continue to dwindle, states have begun to rely on new taxes, such as those on tobacco or alcohol, to increase tax revenue.

Local taxes

Very few localities have a personal income tax (several large cities have imposed an income tax, e.g., New York City). Rather, the mainstay of local tax revenue is the property tax (generating approximately 75 percent of localities' revenue). The tax is imposed on real property owned within the locality. Localities are granted by their states the authority to both set the rates of and collect property taxes. A hundred years ago, states levied and collected property tax, but they gradually relinquished this duty to localities because property taxation is much more easily administered at the local level (as is the case with many taxes).

A more recent development in state and local fiscal relations is an increase in the number of states allowing localities to enact non-property taxes. Non-property taxes are sometimes referred to as "permissive" taxes, and they include taxes on: incomes, sales, hotel room occupancy, restaurant meals, taxi rides, cigarettes, gasoline and gross receipts. Use of such permissive taxes, along with the property tax, provides localities with new mechanisms to generate revenue.

LIMITATIONS ON GOVERNMENTS' POWERS

Across the country, not all localities share the same rights or authority. Under state and local government law, the simple rule is that the local government can do anything that the state permits it to do and nothing more. Thus, state legislatures decide which aspects of health, safety and welfare can be the responsibility of their localities.

Authorization for localities to act in a specific area can come in one of two ways: expressly through state legislation or through what is known as "home rule." The home rule movement was born from localities that wanted to engage in self-government in areas that seemed classically local in character (e.g., fire, education, land use, zoning). In response, many states began to grant specific powers to their localities. Today, the two sources of local power—enabling legislation and home rule—are not a dichotomy but more nearly define the ends of a continuum. Most states have elements of both models; however, each state is different: some states have granted ultimate decision-making power to localities on issues that have been deemed "local" (e.g., Colorado), and others have reserved the power to preempt local decisions (e.g., Massachusetts).

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1. Jerome R. Hellerstein & Walter Hellerstein, *State & Local Taxation,* West Publishing Co., 1988, p. 15 (citations omitted).

2. William D. Andrews, *Basic Income Taxation,* Little Brown & Co. 1991, pp. 19-21.

3. Marvin A. Chirelstein, *Federal Income Taxation,* Foundation Press, 1994, p. 170.

4. Hellerstein & Hellerstein p. 4.

5. Hellerstein & Hellerstein p. 11.

APPENDIX 3: KEY NATIONAL ORGANIZATIONS IN CHILD CARE AND FAMILY SUPPORT

National constituent membership organizations

Ecumenical Child Care Network is an organization of church-related child care providers that began in the early 1980s as a project associated with the National Council of Churches Child Advocacy Office. Today, it is an independent organization that conducts research and public education, and provides resources and supports, including an accreditation system for church-related programs with mentoring and self-study components.

Carmelita Madison, Executive Director
Ecumenical Child Care Network
8765 West Higgins Road, Suite 405
Chicago, IL 60631
(312) 693-4040

National Association for Family Child Care is a national membership organization of family day care providers, and local and state family day care associations. It sponsors an annual national conference and an accreditation program for family day care providers. NAFCC has about 3,500 members and is governed by a board of 10 regional representatives. NAFCC is focusing its efforts on supporting family child care associations and promoting quality through accreditation.

Deborah Eaton, President
National Association for Family Child Care
206 Sixth Avenue, Suite 900
Des Moines, IA 50309-4015
(515) 282-8192
(619) 466-8340 (in California)

National Association for the Education of Young Children is a national membership organization organized in the early 1900s to work on behalf of the needs, rights and well-being of all young children. It has about 85,000 members, is governed by an elected board of 17 members and has more than 425 affiliate groups in the U.S. and overseas. NAEYC sponsors the National Academy of Early Childhood Programs, which accredits center-based programs for children birth through age five. NAEYC's Early Childhood Professional Development Institute works to establish professional standards and definitions in the field for all programs serving children birth through age eight. NAEYC publishes a bimonthly journal, *Young Children,* and sponsors a national conference annually.

Marilyn Smith, Executive Director
National Association for the Education
of Young Children
1509 16th Street, NW
Washington, DC 20036-1426
(800) 424-2460

National Association of Child Advocates was founded in 1984 to create and sustain state- and community-based child advocacy organizations. Its 51 member organizations in 40 states and seven cities and communities are citizen-based, nonprofit, independent, multi-issue advocates working to educate decision makers on children's programs, collect data on the status of children, litigate when needed and inform the public and the media on children's issues including food, shelter, security, health and education.

Eve Brooks, Executive Director
National Association of Child Advocates
1522 K Street, NW, Suite 600
Washington, DC 20005
(202) 289-0777

National Association of Child Care Resource and Referral Agencies is a national organization begun in 1986 to promote the growth and development of high-quality resource and referral services and to exercise national leadership to build a diverse, high-quality child care system with choice and equal access for all families. It has close to 500 member agencies and is governed by a board that includes representatives of its eight regions. NACCRRA sponsors a national policy symposium annually, as well as eight regional conferences for training and technical assistance.

Yasmina Vinci, Executive Director
National Association of Child Care Resource and Referral Agencies
1319 F Street, NW, Suite 810
Washington, DC 20004
(202) 393-5501

National Black Child Development Institute, founded in 1970, is dedicated to improving the quality of life for black children and families. Child care/early childhood education is one of its four major areas of focus. NBCDI is a public policy and public education organization. Its local affiliates, in most major cities and many other areas of the country, provide direct services to black children and youth.

Evelyn K. Moore, Executive Director
National Black Child Development Institute
1023 15th Street, NW, Suite 600
Washington, DC 20005
(202) 387-1281

National Center for the Early Childhood Work Force is a national resource and advocacy organization dedicated to improving child care quality through better wages and working conditions for child care staff. It was formerly the Child Care Employee Project, which began in Oakland, California, in the 1980s. NCECW conducts research, public education and demonstration projects. Its Mentor Teacher Project is a model staff-development program addressing both the supervision and compensation issues in child care. The NCECW supports the grassroots Worthy Wage Campaign.

Claudia Wayne, Executive Director
National Center for the Early Childhood Work Force
733 15th Street, NW, Suite 1037
Washington, DC 20005
(800) U-R WORTHY
(202) 737-7700

National Head Start Association is a membership organization representing children, parents, staff and directors of Head Start programs. The mission of the organization is to advocate for children and families and provide opportunities for the Head Start community to affect Head Start. Its board is composed of equal numbers of representatives from the National Head Start Parent Association, the National Head Start Directors Association, the National Head Start Staff Association and the National Head Start Friends Association.

Sarah Greene, Chief Executive Officer
National Head Start Association
1631 Prince Street
Alexandria, VA 22314
(703) 739-0875

National School-Age Child Care Alliance is a membership organization of individuals and groups formed in 1987. NSACCA is committed to advocating and supporting the development and expansion of quality, affordable, accessible school-age child care nationally and promoting the professionalism of school-age child care. It is an all-volunteer organization that sponsors an annual national conference and actively works to develop state and local school-age child care alliances. NSACCA has about 2,000 members and is governed by a 28-member elected board.

Ellen Clippinger, President
National School-Age Child Care Alliance
2140 West 44th Street
Indianapolis, IN 46208
(317) 283-3817

National education organizations with early care and education interests

Council of Chief State School Officers is the national organization of the superintendents of education of the 50 states and U.S. territories. In 1988, CCSSO endorsed a policy statement on early childhood and family education and did significant work with its members to implement it. CCSSO played a key role in marshaling the support of education organizations for passage of the 1990 federal child care legislation. Its Resource Center on Educational Equity is involved in a number of early childhood projects; Cynthia Brown is the resource center's director.

Gordon Ambach, Executive Director
Council of Chief State School Officers
One Massachusetts Avenue, NW, Suite 700
Washington, DC 20001-1431
(202) 408-5505

National Association of Early Childhood Specialists in State Departments of Education is a national membership organization for the early childhood specialists who work in each state's department of education. It has about 75 members and has been in existence for more than 20 years. Although it does not have an office or paid staff, NAECS/SDE has issued many influential policy statements on subjects ranging from kindergarten practices to a national children's policy.

Susan Andersen, President
Office of Educational Services for Children,
Families and Communities
Iowa Department of Education
Grimes State Office Building
Des Moines, IA 50319-0146
(515) 281-4747

National Association of Elementary School Principals is the national membership organization for elementary principals. NAESP defined the standards of good practice for early childhood programs in schools during 1993, and in 1994 it released standards for school-age child care.

National Association of Elementary School Principals
1615 Duke Street
Alexandria, VA 22314
(703) 684-3345

National Association of State Boards of Education is the membership organization for members of state boards of education. Since 1987, NASBE has had an early childhood program directed by Tom Schultz. Its widely distributed publication, *Right from the Start,* proposed a collaborative relationship between schools and other early childhood education programs and was influential with many policy makers and practitioners. NASBE convened a National Task Force on School Readiness (chaired by then-Governor Bill Clinton). The task force report, *Caring Communities,* redefines readiness as a shared obligation between government, communities and families, and offers clear directions for achieving the first national education goal.

National Association of State Boards of Education
1012 Cameron Street
Alexandria, VA 22314
(703) 684-4000

National policy makers' organizations

National Conference of State Legislatures was founded in 1975 as a bipartisan organization dedicated to serving lawmakers and staffs of the nation's 50 states, commonwealths and territories. NCSL is committed to improving the quality and effectiveness of state legislatures, fostering interstate communication and cooperation and ensuring legislatures a strong, cohesive voice in the federal system. NCSL serves as a conduit for communication among lawmakers and a source for research, publications, consulting services, meetings and seminars. NCSL's Children and Families Program provides services to legislators and staff working to improve state policies affecting children and their families. Issues include juvenile violence, child welfare, child protection, welfare reform, human services reform, and early child care and education. Scott Groginsky is the state specialist for child care and early childhood education.

Shelley Smith, Director
Children and Families Program
National Conference of State Legislatures
1560 Broadway, Suite 700
Denver, CO 80202
(303) 830-2200

National Governors' Association was founded in 1908 to enable governors to deal collectively with issues of public policy and governance. NGA's mission is to support the work of governors by providing a bipartisan forum to help shape and implement national policy and to solve state problems. Its members are the governors of the nation's 50 states, territories and commonwealths. The Center for Policy Research is the research and development arm of the association, working in a number of policy fields including education and social services.

National Governors' Association
444 North Capitol Street
Washington, DC 20001
(202) 624-5300

Other national organizations with an early care and education focus

Center for Career Development in Early Care and Education at Wheelock College is devoted to improving the quality of care and education for young children by creating a viable career development system for practitioners. In late 1993, the center released a report, *Making a Career of It,* based on its national study of career development in the states. The study examined regulation, training opportunities and financial support for the preparation of home- and center-based practitioners. The center is working in a number of states to create career development systems that link local projects with state policy changes and the higher education community. The center is a clearinghouse on information about career development activities across the country. The center's Action Packs on planning, financing, training and other issues are valuable resources.

Andrea Genser, Director
Center for Career Development
in Early Care and Education
Wheelock College
200 The Riverway
Boston, MA 02215-4176
(617) 734-5200, ext. 211

Child Care Action Campaign is a national coalition of organizations and individuals formed in 1983 to respond to the nationwide child care crisis. Through publications, research and media projects, CCAC provides resources to the public to help them understand child care problems and work for change.

Barbara Reisman, Executive Director
Child Care Action Campaign
330 Seventh Avenue, 17th Floor
New York, NY 10001
(212) 239-0138

Child Care Law Center is a national, nonprofit legal services organization founded in 1978. The center uses legal tools to advance and implement public policy initiatives that help families meet child care needs and help child care providers deliver high-quality services. CCLC provides legal support to the child care community as a legal services support center, through training and through its publications.

Deena Lahn, Executive Director
Child Care Law Center
22 Second Street, 5th Floor
San Francisco, CA 94105
(415) 495-5498

Children's Defense Fund is a national advocacy organization focused on children, especially children in poverty. Through its publications, research and federal legislative advocacy efforts, CDF seeks to improve the quality of life for poor children and their families. CDF has various departments organized by issues area, e.g., child welfare, child care. It sponsors an annual conference and publishes a regular newsletter.

Helen Blank
Child Care and Development Division
Children's Defense Fund
25 E Street, NW
Washington, DC 20001
(202) 662-3547

National Center for Children in Poverty was established in 1989 at the School of Public Health, Columbia University. Its mission is to identify and promote strategies that reduce the number of young children living in poverty in the U.S., and that improve the life chances of the millions of children under six who are growing up poor. The center alerts the public to demographic statistics about child poverty and scientific research on its impacts; conducts field-based studies to identify promising programs, policies and practices that benefit young children and their families; convenes public-private meetings and issues reports; and disseminates information on early childhood care and education, child health, and family and community support. Ann Collins is the program associate for early childhood care and education.

J. Lawrence Aber, Director
National Center for Children in Poverty
Columbia School of Public Health
154 Haven Avenue
New York, NY 10032
(212) 304-7100

National Child Care Information Center was established to complement, enhance and promote child care linkages and to serve as a mechanism for supporting quality comprehensive services for children and families. NCCIC is an activity of the Child Care Technical Assistance Project funded by the federal Administration for Children and Families. The center supports the Child Care Bureau to collect and analyze child care data and maintains a database of information reported by states, tribes and territories. NCCIC is the national clearinghouse for child care publications and research within the Education Resources Information Clearinghouse (ERIC) system. The center publishes the bimonthly *Child Care Bulletin,* and offers toll-free phone, fax and electronic access to information.

Anne Goldstein, Director
National Child Care Information Center
301 Maple Avenue, Suite 602
Vienna, VA 22180
(800) 616-2242

School-Age Child Care Project is a national policy research, training and technical assistance project focused on improving the quantity and quality of school-age child care and raising public awareness of the importance of children's out-of-school time. It is part of the Center for Research on Women at Wellesley College. The SACC Project began in 1977 and has developed quality assessment tools for school-age child care programs, provided training across the country and conducted research on various aspects of school-age care. The SACC Project works closely with the National School-Age Child Care Alliance, and in partnership they are developing a program accreditation system.

Michelle Seligson, Director
School-Age Child Care Project
Wellesley College Center for Research on Women
106 Central Street
Wellesley, MA 02181
(617) 283-2547

Zero to Three: National Center for Infants, Toddlers and Families, formerly known as the National Center for Clinical Infant Programs, is a national organization dedicated solely to improving the chances for healthy physical, cognitive and social development of infants, toddlers and their families. It was founded in 1977 by a dozen experts in health, mental health and human development who wanted to share with families, caregivers and policy makers the "new" knowledge about how infants and toddlers develop.

Michael Melman, Executive Director
Zero to Three
734 15th Street, NW
Washington, DC 20005
(202) 638-1144

Family support and parent education organizations

Family Resource Coalition is a national membership organization dedicated to communicating about family support. The coalition is a network of people and programs committed to community-based preventive services for families. FRC publishes a quarterly magazine and a bimonthly networking newsletter, along with numerous other publications, and sponsors national meetings and an annual conference. FRC operates the National Resource Center for Family Support Programs, which provides information and technical assistance to individuals, states and communities.

Family Resource Coalition
200 S. Michigan Avenue, Suite 1520
Chicago, IL 60604
(312) 341-0900

National Center for Family Literacy is a training and technical assistance organization devoted to promoting family literacy based on the model developed in Kentucky (Parent and Child Education, or PACE). PACE later served as the foundation for the national Even Start program. Family literacy combines adult basic education, parenting education, and early childhood education incorporating some parent-child activities. The center publishes a newsletter, offers publications and sponsors national conferences.

Sharon Darling, Executive Director
National Center for Family Literacy
Waterfront Plaza, 325 W. Main Street, Suite 200
Louisville, KY 40202-4251
(502) 584-1133

Parents as Teachers National Center was established by the Missouri Department of Elementary and Secondary Education in 1987 to support and promote replication of the PAT model within and outside of Missouri. In 1990, the center became an independent nonprofit organization. It provides training and technical assistance to a wide variety of states, school districts and other agencies on family education through the PAT approach.

Mildred Winter, Executive Director
Parents as Teachers National Center
9374 Olive Boulevard
St. Louis, MO 63132
(314) 432-4330

National organizations with a business focus

American Business Collaboration for Quality Dependent Care was formed in 1992 to increase the supply and quality of dependent care services in the U.S. ABC is a partnership among 156 businesses and public-/private-sector organizations. By helping companies identify common interests and pool their resources, ABC enables the business community to invest in a range of services in many geographic areas. These efforts target specific needs of company employees and also support existing community services. The national corporate work-life services consulting firm, Work/Family Directions, manages ABC.

Work/Family Directions
930 Commonwealth Avenue
Boston, MA 02215
(800) 767-9863

Employer Group is a limited membership group of 25 major corporations and one government agency that focuses on the work-family concerns of low-wage and entry-level workers. The group is co-chaired by a representative from Marriott International and one from J.C. Penney. The Families and Work Institute staffs the group.

Families and Work Institute is a national, nonprofit organization that addresses the changing nature of work and family life through research-based strategies that foster mutually supportive connections among workplaces, families and communities. FWI works in the business, public policy and child care communities, locally and nationally. FWI staffs New York City's Early Education Business Leadership Group, the national Employer Group and the national Early Childhood Public Engagement Campaign. FWI produces research reports and other publications on a wide variety of topics.

Ellen Galinsky, President
Families and Work Institute
330 Seventh Avenue
New York, NY 10001
(212) 465-2044

Appendix 4: National Children's Facilities Network

Laura Benedict, Director
North Carolina Community Facilities Fund
c/o Center for Community Self-Help
P.O. Box 3619
Durham, NC 27702-3619
Phone: (919) 956-4430
Fax: (919) 688-3615

Gerald Cutts, Executive Director
Development Corporation for Children
212 Third Avenue N., Suite 310
Minneapolis, MN 55401
Phone: (612) 338-3023
Fax: (612) 333-4068

Carol Glazer, Senior Vice-President
Amy Gillman, Assistant Program Director
Local Initiatives Support Corporation (LISC)
733 Third Avenue
New York, NY 10017
Phone: (212) 455-9834
Fax: (212) 682-5929

Jim Klein, Executive Director
Ohio Community Development Finance Fund (CDFF)
42 E. Gay Street, Suite 1000
Columbus, OH 43215-3119
Phone: (614) 221-1114, (800) 959-2333
Fax: (614) 221-7493
E-mail: hn2031@handsnet.org

Trinita Logue, President
Karen Schmuhl, Director of Finance and Lending
Bob Palmer, Research Assistant
The Illinois Facilities Fund (IFF)
300 W. Adams Street, Suite 431
Chicago, IL 60606
Phone: (312) 629-0060
Fax: (312) 629-0065
E-mail: hn2467@hansnet.org

Norah McVeigh, Associate Director
of Financial Services
Non-Profit Facilities Fund
70 W. 36th Street, 11th Floor
New York, NY 10018
Phone: (212) 868-6710
Fax: (212) 268-8653

Phebe Royer, Loan and Investment Officer
Coastal Enterprises, Inc.
Water Street
P.O. Box 268
Wiscasset, ME 04578
Phone: (207) 882-7552
Fax: (207) 882-7308

Wanda James Speight, Director of Lending
Delaware Valley Community Reinvestment
Fund (DVCRF)
924 Cherry Street, 3rd Floor
Philadelphia, PA 19107
Phone: (215) 925-1130, ext. 211
Fax: (215) 923-4764
E-mail: 74363,1230@compuserve.com

Janette Stokley, Child Care Project Manager
The National Economic Development
& Law Center (NED&LC)
2201 Broadway, Suite 815
Oakland, CA 94612
Phone: (510) 251-2600
Fax: (510) 251-0600
E-mail: hn0186@handsnet.org

Carl Sussman
Child Care Capital Investment Fund
c/o Sussman & Associates
294 Washington Street, Suite 330
Boston, MA 02108-4608
Phone: (617) 357-8555
Fax: (617) 728-3028
E-mail: hn4774@handsnet.org

Susan Trusty-Holman, Executive Director
Early Childhood Facilities Fund of New Jersey
65 S. Main Street, Building D
Pennington, NJ 08534
Phone: (609) 730-1070
Fax: (609) 730-1075

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