Creating Dedicated Local and State Revenue Sources for Youth Programs

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Foreword

Growing up today, youth face challenges and opportunities very different from those of past generations. Supporting the healthy growth and development of youth, as well as providing them with the services and experiences they need to mature into productive adults, are growing concerns in many communities. Pressure to raise student achievement, the need for safe and enriching environments for youth during out-of-school time, a focus on building the skills and competencies of young people, and an emphasis on preventing risky behaviors are all fueling the demand for quality youth programs. In many communities, however, leaders are challenged to find and coordinate adequate funding for youth programs and to access resources for program capacity and quality enhancements.

For youth programs to succeed, policymakers, program leaders, and intermediary organizations need resources and strategies to support quality programs over time. *Creating Dedicated Local and State Revenue Sources for Youth Programs* is an important addition to The Finance Project's research on financing and sustaining supports and services for children, youth, and families. This brief outlines strategies to create dedicated local and state revenue sources for youth programs and profiles these strategies at work in different states and communities. It also provides guidance and information on the capacity, funding, and community support required to create local and state dedicated revenue sources.

This publication is part of a new series of products from The Finance Project. The series focuses on tools, strategies, and resources to support and sustain effective youth programs and policies. Each product will present options for financing and sustaining, or for governing and managing, youth initiatives. Each will illustrate these options with examples of initiatives and highlight considerations to help leaders weigh the alternatives. This body of work also includes an online clearinghouse of information and other resources for supporting and sustaining youth programs and policies. Our hope is that these products and the clearinghouse, in adding to The Finance Project's extensive resources on financing and sustaining promising initiatives for children, youth, and families, will prove useful to policymakers, program and community leaders, and others concerned with supporting vital youth initiatives.

Cheryl D. Hayes
Executive Director

Introduction

Finding funding to support increased demand for youth programs and services is a continuing challenge for local policymakers and program developers. Current funding for youth programs is fragmented and fluctuates according to the state of the economy and constantly changing funding priorities. [1] Youth programs are funded and supported by numerous agencies at the federal, state, and local levels. These agencies all have their own purposes, targets, eligibility requirements, application processes, and reporting procedures. In addition to a lack of coordination, many youth programs suffer from a lack of sustainable resources; there are very few long-term funding sources for youth programs. One of the largest federal programs currently supporting youth, the 21st Century Community Learning Centers program, provides grants that have been used largely to seed new programs and, as the first rounds of state-administered grants expire, many schools and community organizations are struggling to achieve sustainability for their programming. [2] Likewise, state and local efforts have focused on program development and quality improvements, rather than on sustainability. [3] Public sources also tend to focus on providing remediation (e.g., foster care and juvenile justice), rather than on promoting healthy development and preparing youth to avoid risky behavior. Youth programs nationwide are constantly seeking new strategies to fund quality programs over time.

One strategy to generate funding for youth programs and services is to create dedicated revenue sources. Dedicated revenue sources raise and/or direct public funds for specific purposes. This financing strategy offers policymakers and program developers several advantages. Depending on the mechanism, dedicated revenue sources tend to yield relatively stable and predictable funding over time. They also afford some protection during annual appropriations battles, because dedicated revenue sources tend to be difficult to cut or eliminate. For example, some dedicated revenue mechanisms can only be repealed through a referendum. Finally, like other new public revenue, funds generated by dedicated revenue mechanisms can be used as a match for other public- and private-sector funding. For example, in California, local dedicated revenues in several jurisdictions are being used as matching funds for the statewide afterschool program ASES.

Dedicated revenue sources also have drawbacks. Once a dedicated revenue source is created to provide funding for specific purposes, decision makers may believe they have already addressed those programs' funding requirements. If the level of additional funds allocated to those programs declines over time, the amount of revenue dedicated for a specific purpose may become a ceiling, rather than a floor. Moreover, if a dedicated revenue source is not structured to take into account changing dynamics, such as an increase in the demand for services or a decline in economic conditions, it may not generate adequate funding in the long run. Finally, just as dedicated revenue sources are difficult

[1] Sharon Deich and Cheryl D. Hayes. *Thinking Broadly: Financing Strategies for Youth Programs* (Washington, D.C.: The Finance Project, January 2007), at http://www.financeproject.org/irc/yp.asp.

[2] Amanda Szekely and Heather Clapp Padgette, *Sustaining 21st Century Community Learning Centers: What Works for Programs and How Policymakers Can Help* (Washington, D.C. The Finance Project, September 2006), at http://www.financeproject.org/publications/sustaining_21cclc.pdf.

[3] Heather C. Padgette, *Finding Funding: A Guide to Federal Sources for Out-of-School Time and Community School Initiatives* (Washington, D.C.: The Finance Project, 2003), at http://www.financeproject.org/Publications/FundingGuide2003.pdf.

to eliminate, they also tend to be difficult to create. Stakeholders must consider how cost-effective these sources may be, because the process to develop dedicated revenue sources can be very costly in terms of time and other resources. For example, in a 2005 brief, the National Women's Law Center examined the effectiveness of ballot measures in advancing early care and education initiatives. The center found that based on estimates for ballot measures for which monetary cost and time estimates were available, local and statewide ballot campaigns–including campaigns for earmarked funds from existing funding streams and dedicated tax increases—had to raise and spend hundreds of thousands, if not millions, of dollars. Similar to political campaigns, these ballot campaigns also demanded the '24/7' schedule typical of a political campaign, which meant large investments of unpaid labor over an extended period of time, often several years. [4]

Ballot Measures: Initiatives and Referendums

Some efforts to create dedicated revenue sources require voter approval. Initiatives and referendums enable the public to play a direct role in creating dedicated local and state revenue sources. [5]

Initiatives are measures proposed by members of the public.

- Advantages: Initiatives may more accurately represent public will and/or be more long-lasting because they are expressly approved by the voters.
- Drawbacks: Less than half of the states allow citizens to propose statewide ballot initiatives, though thousands of localities allow this option. Some stakeholders may have concerns about the policy implications of circumventing the deliberations inherent in the legislative process and the long-term effects of "budgeting by ballot."

Referendums are measures passed by a legislative body; the public then votes on these measures.

- Advantages: Nearly all states require constitutional amendments to be approved by voters, making the referendum a commonplace and necessary mechanism.
- Drawbacks: The legislative process is not immune to poor policymaking or the influence of well-financed priorities or special interests.

Regulations governing the use of initiatives and referendums vary by state. Both initiatives and referendums can be used to enact statutes or constitutional amendments. Measures that amend a state constitution or a local charter typically cannot be changed or repealed except through another ballot measure. However, legislatures generally retain the authority to change a statute created through an initiative or a referendum.

[4] National Women's Law Center, *Power to the People: The Effectiveness of Ballot Measures in Advancing Early Care and Education, Executive Summary* (Washington, D.C.: National Women's Law Center, 2005), at http://www.nwlc.org/pdf/PowertothePeopleFinal2005ExecSummary.pdf.

[5] Ibid.

This brief highlights six strategies to create dedicated revenue sources for youth programs and services that policymakers, intermediary organizations, and youth advocates can work together to implement at the state, city, and/or county levels. It describes the critical features of each strategy and highlights examples of each strategy in practice. The brief also discusses considerations for the use of each strategy, including the appropriateness of various approaches; the likely stability and adequacy of revenues generated; the extent to which the strategy can be used to improve the coordination of resources; and considerations regarding political feasibility. Theoretically, each strategy can be implemented at the state, municipal, and county levels. However, some strategies, such as income tax checkoffs where no local income taxes exist, will be more applicable at the state level than at the local level.

Youth Programs and Positive Youth Development

Throughout this brief, the term "youth programs" is used to describe a wide range of services and activities for youth. Youth programs include prevention, intervention, and developmental programs across multiple domains, including academics, workforce preparation, leadership and civic engagement, and health and well-being. These programs are provided by large and small public and private organizations in diverse settings such as schools, workplaces, and community facilities. Examples of youth program activities include counseling, mentoring, career exploration, summer employment, dropout prevention, financial literacy, academic assistance, and sports and recreation.

During the past few decades, the positive youth development approach to programming has had a considerable impact on the field and on those who care about outcomes for youth. This approach orients providers and programs to develop the skills, assets, and competencies of the youth they serve in order to help young people experience a healthy adolescence and successful transition to a productive adulthood. Programs that incorporate elements of positive youth development can be effective in building youth skills, assets, and competencies. They can also help reduce specific problem behaviors, such as smoking, misbehaving in school, and using drugs and alcohol.[6] The positive youth development approach encourages broad community engagement and collaboration to provide young people with the supports, services, and opportunities they need to grow and thrive.

[6] For more information on research findings, see R. Catalano, M. Berglund, J. Ryan, H. Lonczak, and J. Hawkins, *Positive Youth Development in the United States: Research Findings on Evaluations of Positive Youth Development Programs* (Washington, D.C.: U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, November 1998), at http://aspe.hhs.gov/hsp/PositiveYouthDev99/.

Strategies To Create Dedicated Revenue Mechanisms

Six strategies for creating dedicated local revenue sources for youth programs are:

1. **special taxing districts;**
2. **special taxes and levies;**
3. **guaranteed expenditure minimums;**
4. **fees and narrowly based taxes;**
5. **income tax checkoffs; and**
6. **children's trust funds.**

What is common to all of these strategies is that their success depends on the ability of youth advocates, intermediary organizations, and youth program leaders to form a broad and powerful coalition. Implementing any one of these strategies is a time-consuming and labor-intensive process; it often takes several years and many stakeholders to create a dedicated revenue source. Some of the strategies are easier to implement, requiring the action of fewer individuals, but they tend to generate less revenue. The financial needs of the program, the available support in the community, and the local economic climate are factors that will influence decisions about which option is viable and should be pursued.

Maintenance-of-Effort Clauses

Advocates of dedicated revenue sources should consider including a maintenance-of-effort clause in the statute and/or regulations that authorize the creation of such mechanisms. A maintenance-of-effort clause specifies that funds generated by a dedicated revenue source can only be spent to supplement existing levels of funding. Policymakers and program developers may want to include such a clause to guard against new revenue being used to supplant existing revenue.

Strategy 1: Special Taxing Districts

Special taxing districts are independent units of local government, separate from county or municipal government. Generally, the creation of special taxing districts requires state authorization and, in some cases, approval by local voters. Although the special taxing district may share geographical boundaries with a local unit of government, the district remains legally and administratively distinct. Revenue generated from the levying of property taxes through a special taxing district is generally dedicated to a single purpose. Special taxing districts are most often used to support public education, though several states and localities have implemented special taxing districts to support youth services.

Fort Worth, Texas: Crime Control Prevention District

In the late 1990s, Fort Worth, Texas, experienced a rise in violent crime and gang activity, prompting law enforcement to suggest the development of a tax increment district dedicated to combating local crime. As a result, in 1999, the public overwhelmingly approved a half-cent sales tax and the Crime Control Prevention District was created. A nine-member board of directors appointed by the city council establishes the budget and policies of the district. By law, the city manager proposes the annual district budget to the board, which then votes to approve or disapprove the budget after holding a mandatory public hearing. After the district board has approved the annual budget, it is forwarded to the city council, which votes to approve or disapprove the budget after holding a mandatory public hearing of its own.

The annual revenue from the sales tax, amounting to $48 million, is used to provide additional resources for law enforcement; of this amount, $1.4 million—increased to $1.6 million in 2005/06—is allocated annually to the Fort Worth Afterschool (FWAS) program through Forth Worth's annual budget process. FWAS, a joint collaboration between the city and the Fort Worth Independent School District, provides afterschool enrichment activities for approximately 7,200 school-age children in Fort Worth. The independent school district's goals include promoting educational competence and physical and social development and, eventually, reducing juvenile crime.

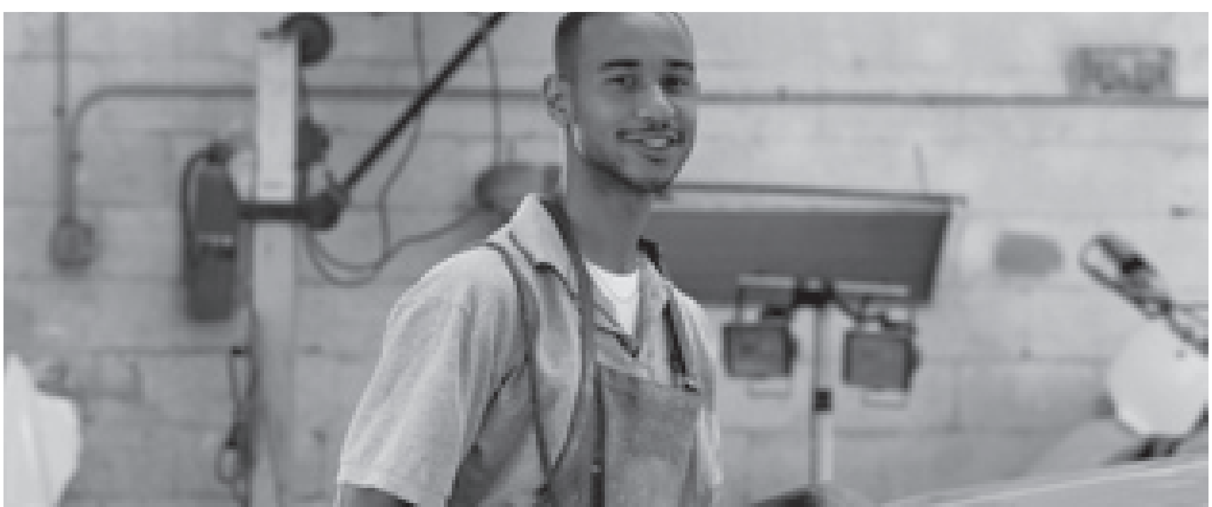
Florida: Children's Services Councils

Florida passed legislation in 1986 that allows counties to hold local referendums in which voters determine if they are willing to create a special taxing district and levy an additional property tax to fund services for children and youth. Referendums have been passed in 16 Florida counties. In developing a service strategy that best supports children and their families, many of these counties have chosen to make afterschool programs a primary component of their efforts.

The Palm Beach County Children's Services Council (CSC) is composed of 10 members. Five are appointed by the governor to four-year terms and five are appointed because of their office or position—the superintendent of schools, a juvenile court judge, the district administrator of the department of children and families, a school board member, and a county commissioner. The Palm Beach CSC provides funds to programs focusing on prevention and intervention strategies for children and youth; 50 percent goes to children from birth to age five, 25 percent goes to afterschool programs, and 25 percent goes to programs that support families. The CSC has leveraged additional funds from both private and public sources and also provides matching funds for state and federal grants. In 2000, a referendum was passed to increase the millage rate, which provided higher revenues for children and youth programs.

Considerations

- Once in place, special taxing districts tend to provide very stable and reliable funding. They are also difficult to eliminate; a local ballot initiative is usually required to repeal authorization for a special taxing district.
- District boards, which oversee special taxing districts, may be able to leverage private resources from local foundations or from the business community.
- A local district board may be more responsive than a general governing body in allocating revenue based on local needs for programs and services.
- Depending on its composition, the district board may provide an effective governance mechanism for improving the coordination of programs and services and for allocating public resources more efficiently.
- Special taxing districts produce the most revenue in areas with the highest taxable property values and the least revenue in less wealthy areas. How district boundaries are drawn will affect the district board's ability to raise necessary revenues and direct benefits to those in need.
- The creation of new taxing districts may result in a reduction in appropriations from state legislatures and city or county councils if policymakers believe that youth services are already sufficiently funded through these new sources.
- Depending on local legal requirements, this strategy will likely require significant community mobilization campaigns. In most communities, advocates will need to conduct a state legislative campaign to pass enabling legislation and then a local campaign to grant taxing authority.
- The political feasibility of creating new taxing districts will depend on the attitude of local voters toward property taxes and the existence of caps on property tax rates.



Strategy 2: Special Taxes and Levies

State and local governments can increase existing taxes by implementing special tax levies to meet specific purposes. Special tax levies are add-ons to an existing tax, such as property, personal income, sales, or business taxes; these levies result in an increase in the existing tax rate. New revenue generated from the tax increase is then earmarked for specific programs and/or services, such as youth programs.

Little Rock, Arkansas: Sales Tax Increase

In the early 1990s, the citizens of Little Rock became concerned with the rising crime levels in their community and began thinking of ways to combat them. With the help of private seed funding, two organizations—New Futures for Little Rock Youth and Fighting Back—were created to emphasize youth issues and develop substance abuse programs. In addition, a massive citizen-based process called FUTURE–Little Rock enabled the community to buy into possible ideas and solutions. These critical initial steps resulted in the city passing in 1994 a half-cent sales tax that established a dedicated permanent funding stream for the Prevention, Intervention, and Treatment (PIT) initiative. The sales tax provides $3.5 million annually for PIT programs and covers both positive youth programming and the expansion of law enforcement and other emergency services in the city. The city's community programs department administers these funds in the form of grants to youth programs and other organizations through an annual request for proposals process. PIT actively promotes collaborations among public, private, citizen groups, and other community-based organizations with its youth-oriented programming. As part of the PIT initiative, Little Rock is focusing on reducing the demand for alcohol, tobacco, and other drugs in the community, especially among adolescents.

Seattle, Washington: Families and Education Levy

Seattle's families and education levy, which is based on the property tax, first passed in 1990 at a level of $69 million. The assessment provides funding for early child care, out-of-school time, and youth development programs. Due to a sunset clause, voters must renew the levy every seven years, which means that stakeholders must make efforts to maintain the program and influence decisions for future programming. The levy was renewed in 1997 at $69 million and, in 2004, voters approved an expanded families and education levy proposition at $116.8 million. New funds will support different activities in eight major investment areas. The city council approved $3.1 million of this funding annually for out-of-school time programs, an additional $1 million for middle school support, and $1.25 million for high-risk middle and high school students. Seattle's department of neighborhoods within the office of education oversees the program. A Levy Oversight Committee directs the use of levy funds, setting desired outcomes from levy investments and expectations for accountability. Individual programs must apply to the committee to receive funds. A partnership agreement with the Seattle Public Schools identifies their role in supporting levy-funded programs.

Wautoma, Wisconsin: Fund 80

Wisconsin's school boards have the authority to create a Community Service Fund, often referred to as Fund 80, and to introduce an additional property tax to support extracurricular programs for students and programs that serve the community outside of the regular school curriculum. Wautoma, a small community, has taken advantage of this provision and collects local taxes under Fund 80. For the 2005–06 school year, some of these funds were shifted from previous uses to support the A+ Program, Wautoma's afterschool programming offered through the school district. Fund 80 expenditures are included as line items in the Wautoma school district budget. The budget must then be approved at an annual town meeting. The Fund 80 resources and district support amounted to almost half of the A+ Program's annual budget for the 2005–06 school year.

Portland, Oregon: Children's Investment Fund

In 2002, voters in Portland passed Measure 26-33, which increased property taxes by 40 cents per $1,000; the revenues are used to fund the Children's Investment Fund. The fund provides approximately $10 million annually for five years to support 47 organizations that help children arrive at school ready to learn, provide safe and constructive afterschool alternatives for children, and prevent child abuse and neglect and family violence. An Allocation Committee governs the Children's Investment Fund and makes grants to individual service providers. Applicants must demonstrate positive outcomes for children through cost-effective services.

Considerations

- Depending on state or local requirements, a referendum or a ballot initiative may be required to authorize special tax levies.
- Advocates for special tax levies should be mindful of the fairness of the tax upon which they choose to base the levy. For example, some taxes, such as sales taxes, are more regressive than others, such as income taxes. Instituting a special levy based on a regressive tax could place an increased burden on lower-income families.
- The stability of revenue generated by a tax levy will differ by tax base. For example, while property tax revenue can fluctuate depending on economic conditions and assessment procedures, it is generally fairly stable over time. Attaching a special tax levy to a property tax base may be a particularly good strategy in localities experiencing high real estate growth. Taxes with a more volatile base, such as sales and income taxes, can fluctuate widely with changes in economic conditions.
- Flexible funding sources may become less flexible over time. If the tax levy is used to support a broad range of services, an oversight board will likely be needed to determine the allocation of resources among services, populations, and providers. In several cities, officials have found that once the allocation determination is made, it is very difficult to alter the distribution of funds.
- The feasibility of creating special tax levies will depend on the local community and political context. For example, several states have instituted tax caps that limit options for the use of a special levy. Other communities may face strong anti-tax sentiments from voters.

Strategy 3: Guaranteed Expenditure Minimums

A guaranteed expenditure minimum (GEM) sets a floor below which public spending for specified programs and/or services cannot fall. An expenditure minimum is created by setting aside or earmarking a portion of funds for specific programs and/or services. An expenditure minimum can be created in a number of ways. A GEM can be set as **a specific dollar amount**; for example, San Francisco's Proposition J created a budget floor set at $44.7 million in 1995. A GEM can also be set as a **percentage of a particular revenue stream** such as property tax revenue. Oakland's Measure K, approved in 1996, required the city to set aside 2.5 percent of unrestricted general revenues in a children's fund for programs directly serving children and youth. In addition, multiple states are dedicating a portion of the revenues from their state lotteries to education-related initiatives for children and youth. A final type of GEM is created by earmarking **a percentage of a budget stream**, such as the state department of human services budget.

GEMs result in an earmarked funding source for programs and/or services through the redirection and earmarking of existing revenue. In a recent review of the success of various ballot measures, the National Women's Law Center concludes that guaranteed expenditure minimums are more appealing to voters than other approaches to raising dedicated revenues. GEMs appeal to voters because goals can be accomplished by using the existing tax system, rather than by creating new taxes.[7]

[7] National Women's Law Center (2005).

California: Proposition 49

In 2002, with support from the governor, California voters passed Proposition 49, the After School Education and Safety (ASES) Act of 2002, which makes additional state funds available to public schools to create quality, locally driven afterschool programs. ASES requires guaranteed general fund appropriations for education to be funded first, before new before- and afterschool programs are funded. ASES was fully funded in fiscal 2006–07 at $550 million. The referendum also maintains existing funding for afterschool programs and provides grants to all eligible elementary, middle, and junior high school programs that submit quality applications. Grants to individual schools require collaboration with other community partners, including community organizations, local businesses, and local law enforcement agencies.

Generally, school districts are the catalyst in securing Proposition 49 funding for their communities. The funds flow to local education agencies that apply on behalf of individual school programs. (Local education agencies (LEAs) include school districts, charter schools, and county offices of education.) LEAs and/or individual schools may then contract with community agencies to provide afterschool programming. Each ASES program must provide its own matching funds, which need to equal at least a third of its grant. Matching funds can be secured from the school district, government agencies, community organizations, or the private sector. The passage of Proposition 49 was prefaced by years of collaboration among advocates, legislators, and state and local officials with the goal of creating an educational and enrichment afterschool program with a special focus on low-income communities.[8]

Tennessee: Lottery for Education and Afterschool Programs

In November 2002, Tennessee voters passed a constitutional amendment referendum which created a state lottery. As part of the legislation, the state General Assembly established that the state's lottery revenues would support specific education initiatives. Initially, the legislation determined that fifty percent of the state lottery's unclaimed prize money would be deposited into a Lottery for Education: Afterschool Programs (LEAPs) account that funds competitive grants and technical assistance for organizations providing afterschool programs. The General Assembly then passed a bill in the spring of 2006 increasing the percentage of funds available to LEAPs to 100 percent of unclaimed prizes, effective July 1, 2006. Once the amount of available funding is known, at the end of each fiscal year, the Department of Education sends out a request for proposals to afterschool providers and awards the grants based on the strength of the applications. In fiscal 2005–06, the first year these funds were allocated, 20 afterschool programs shared a total of $2 million in unclaimed lottery prize money.

[8] For more information on the factors leading up to California's Proposition 49 and the elements key to the initiative's success, see http://www.afterschoolalliance.org/ prop_49_paper.doc.

Considerations

- Creating a guaranteed expenditure minimum may require voter approval through a referendum or a ballot initiative.
- The most effective guaranteed expenditure minimums have a mechanism for adjusting the minimum over time to account for inflation, population shifts, or other related changes.
- Guaranteed expenditure minimums traditionally not only ensure that a certain amount of funding is available, but also specify how those funds will be allocated. Particularly if the guaranteed expenditure minimum is used to fund a broad range of services, the process by which funds are allocated is critical. The challenge is to strike a balance between providing a minimum level of funding for a particular service or population while preserving flexibility in allocating new resources.
- Phase-in periods may be an effective political strategy to increase the chances of passing a guaranteed expenditure minimum. For example, Proposition J, a referendum in San Francisco, California, that created both a budget floor and an earmarked revenue stream to fund children's services, was phased in over two years. The set-aside amount in the first year was 1.25 percent and was then increased to 2.5 percent for years two through nine.

Strategy 4: Fees and Narrowly Based Taxes

In addition to broad-based taxes that cover a wide range of economic activity, local governments can also assess fees and levy narrowly based taxes that are targeted to specific segments of economic activity. Fees can take several forms, but they are typically structured as payments charged for the use of a good or service. Fees can be charged for the use of a public facility, such as a public park, or for a public service, such as water. Fees can also be charged for granting licenses, such as a marriage or fishing license or a license to practice certain occupations, including child care. Local governments can also charge fees for special goods or services. For example, Washington charges a fee for ornate, heirloom birth certificates and transfers a portion of the revenue generated by the fee to its children's trust fund. Fees are voluntary; often the user can avoid them simply by not using the good or service.

Fees and narrowly based taxes are sometimes used to supplement general revenues or support unrelated purposes. For example, Arkansas passed a 3-percent excise tax on beer that benefits early childhood education programs and child care for the working poor. The tax was passed in 2001 as a temporary measure to offset budget cuts to preschool programs. Since then, legislators have renewed the tax every two years and expanded the programs it benefits. In a similar way, tobacco taxes have been used to fund youth programs, including smoking prevention and cessation programs.

Illinois: Park District Youth Program License Plates

In July 2002, the governor of Illinois signed legislation that allows for the issuance of Park District Youth Program license plates. With each plate purchased, and with each annual renewal for that plate, $25 is deposited in the Park District Youth Program fund, managed by the Illinois Association of Park Districts (IAPD). License plate sales have generated approximately $50,000 for the fund in three years. IAPD makes grants from the fund to local-level park districts and recreation agencies to provide innovative afterschool programming for youth through the Power Play Grant Program. This program invites applications from local agencies to implement model programs that focus on health, nutrition, and recreation for children ages 10 to 17. Past recipients received $3,200 as seed money to create a model afterschool program or to enhance an existing program. The Power Play program was originally funded with a grant from the Attorney General's office. The grant is expiring this year and the IAPD expects to continue funding Power Play through the license plate program.

South Dakota: Increase in Cigarette Taxes

In the November 2006 elections, South Dakotans voted to increase the cigarette tax from 53 cents to $1.53 per pack and increase the tax on other tobacco products from 10 percent to 35 percent. The increases are expected to bring in approximately $40 million annually in new tax revenues to help fund tobacco cessation and prevention efforts, reduce the taxpayer burden for Medicaid costs, provide new revenue for education, and provide tax relief for property owners.

Considerations

- The amount of revenue generated from fees and narrowly based taxes will depend on the continued use of the good, service, and/or facility. For nonessential goods, services, and facilities, as the fee or tax increases, the use of that good, service, and/or facility will likely decline. For example, revenue generated by cigarette taxes can be expected to decline over time, because the tax discourages the purchase of cigarettes.
- Because fees and narrowly based taxes target a smaller segment of economic activity than do broad-based taxes, they typically generate smaller amounts of revenue. Consequently, fees and narrowly based taxes may be a better option to fund discrete programs, such as youth programs, rather than universal or broad-based services.
- Advocates and policymakers should consider the type of good or service on which a fee or tax is placed. Adding fees for essential public services, such as utilities or bus transportation, will hit low-income residents the hardest.
- The amount of revenue generated from some types of fees and narrowly based taxes may be unstable. For example, revenue from developer fees will fluctuate according to the real estate market.
- Marketing campaigns to educate the public about a voluntary fee option, such as the opportunity to purchase a specialty license plate, may be necessary to encourage use of the good, service, and/or facility.

Strategy 5: Income Tax Checkoffs

In 1972, the federal government began using checkoffs on income tax returns to enable taxpayers to designate $1.00 of their tax liability to a special presidential campaign fund. States soon followed with their own checkoffs, offering taxpayers the option to contribute to several charitable and social programs, including children and youth programs. Every state with a broad-based income tax has at least one checkoff. As of April 2003, 20 states administer checkoffs to fund children's programs, most commonly, child abuse and neglect prevention services.[9] In 1996, the Colorado state legislature authorized a state income tax checkoff to fund quality enhancements in child care programs.

[9] Federation of Tax Administrators, *Survey of State Income Tax Check-Off Programs* (Washington, D.C.: April 2003), at http://www.taxadmin.org/fta/rate/Checkoff03.html.

Checkoff Revenue

The use of income tax checkoffs to raise dedicated revenues has increased during the past several years. For example, in 2000, U.S. taxpayer checkoff donations totaled approximately $32.8 million; the largest nonpolitical checkoff was Maryland's Chesapeake Bay Fund, which generated $1.2 million in contributions. While income tax checkoffs are growing in popularity, they do not raise large amounts of funding. Stakeholders will want to carefully consider whether the projected revenues are worth the effort of establishing a checkoff.

Checkoffs programs can be structured in two ways. First, the checkoff can be used to redirect a portion of the taxpayer's tax liability to specific services. In this case, the taxpayer's liability remains the same and he or she directs a portion of the tax payment to selected programs. Most state political campaign checkoffs are set up to redirect a portion of tax dollars in this way. Second, state governments can create checkoffs to allow taxpayers to decrease their refunds through donations. Many states limit the donation to the size of a taxpayer's refund. A few states permit taxpayers to increase their tax payments to include checkoffs. Participants in Colorado's state income tax checkoff can make unlimited contributions to one of ten "funds," including the Family Resource Centers Fund or the Dropout Prevention Activity Fund, by decreasing their refund or increasing their tax liability. All nonpolitical state checkoffs are structured as donations from taxpayers.

Alabama: 4-H Checkoff

In summer 2003, the state legislature passed and the governor signed into law the Alabama 4-H income tax checkoff bill. The Alabama Cooperative Extension System administers the Alabama 4-H program, which is the state's largest youth education organization, reaching nearly 180,000 youth between the ages of 9 and 19. 4-H provides programs and activities for youth in rural and urban settings through afterschool programs, community clubs, and special events. 4-H afterschool programming helps youth achieve social, emotional, physical, and academic success while developing healthy lifestyles and behaviors. During the 2004 and 2005 tax years, Alabama 4-H received nearly $20,000 in funds from the income tax checkoff.

Considerations

- Income tax checkoffs may be easier to sell to the public than other strategies to increase taxes, because contributions are purely voluntary.
- Compared with other mechanisms to solicit charitable donations, checkoff contributions require little taxpayer effort.
- Participation rates in checkoffs tend to be low, so this financing strategy generates small amounts of revenue. Consequently, checkoffs are likely a better option to fund a discrete component of a youth system, such as training and technical assistance for providers, rather than direct services or subsidies.
- The amount of revenue generated by a checkoff tends to be highest in the first years of the program and to decline over time. Participation rates may also depend on economic conditions and the size of tax liabilities and refunds.
- Participation rates in redirection programs—in which tax liability is not changed—tend to be higher than participation rates in donation checkoffs. However, contributions to redirection programs tend to be capped, typically at $1.00 or $2.00. Therefore, average contributions tend to be lower than donation checkoffs that are limited only by the size of the refund.
- Local requirements and circumstances will dictate the feasibility of checkoffs. Tax check-offs are obviously not an option in the eight states that do not levy income taxes. In addition to the states that levy income taxes, counties and municipalities that levy local income taxes can also employ this strategy.
- Marketing campaigns may improve participation rates in income tax checkoffs, especially in states that have multiple checkoff options.

Strategy 6: Children's Trust Funds

A trust fund is a separate, designated account in the public treasury that has special rules for managing its funds. Local governments have used trust funds to designate revenues for discrete projects, such as refurbishing historical landmarks, as well as for ongoing programs, such as housing and transportation. Many states have created children's trust funds, most often to fund child abuse and prevention programs. All trust funds are governed by guiding principles that direct fund expenditures and describe fund management goals and processes. In some cases, the state treasurer distributes the trust fund monies. In other cases, an appointed board or commission manages the trust fund. In still other cases, the state legislature makes an annual appropriation through the legislative process. Depending on the management goals, all of the monies in a trust fund may be eligible for expenditure, or expenditures may be limited to the interest that accrues on the account.

Currently, trust funds are a popular state repository for tobacco master settlement agreement revenues. Starting in December 1999, the tobacco industry began to issue payments to states that are projected to total $246 billion over 25 years. Most states began making decisions on the management and allocation of these revenues during their 1999 and 2000 legislative sessions, and they will continue to make decisions on how to use those funds for many years to come. Establishing a trust fund to receive and disburse tobacco settlement monies has been a common strategy. For example, the Kansas legislature created a special trust fund in 1999, the Kansas Endowment for Youth Fund, which holds all of the state funds received under the master settlement agreement. The Kansas Children's Cabinet is charged with advising the governor and legislature on how to use the youth fund's investment earnings, which provide ongoing financial support for the Children's Initiative Fund. The initiative fund provides additional funding for programs, projects, improvements, services, and other purposes beneficial to the welfare, safety, physical and mental health, and overall well-being of children.

Trust funds in other states are supporting youth programs, smoking cessation and prevention programs, and programs addressing other relevant public health issues. In other states, these funds are being used to support projects that are unrelated to issues of health and well-being, such as highways and housing.

Depending on the structure of the trust fund, monies can be contributed from one or many sources. In some cases, public funds from several agencies can be pooled in a trust fund and used to support comprehensive service systems. For example, several children's trust funds provide financial support for child abuse prevention services in conjunction with a broad range of family support services.

Maine: Fund for a Healthy Maine

In Maine, politicians and community advocates for children and families tracked the fiscal developments of the tobacco master settlement agreement and were well positioned to respond to them at the appropriate time. In 1999, the state legislature passed an appropriations bill that established the Fund for a Healthy Maine. The fund receives the state's tobacco settlement funds and supports eight health improvement programs, including smoking cessation and prevention programs. Funds are allocated to local Healthy Maine partnerships, which implement programs at the community level. A significant proportion of the funding has been allocated specifically to the Partnership for a Tobacco-Free Maine to develop and implement statewide tobacco prevention, control, and treatment programs. Among the programs and services funded is the Youth Advocacy Program (YAP), a state-level program that aims to empower youth with the skills they need to create a healthy community by learning how to advocate for change. The health focus of the statewide YAP initiative is to prevent tobacco use, encourage youth to stop smoking, decrease public exposure to secondhand smoke, increase physical activity, and encourage healthy eating.

North Carolina: North Carolina Health and Wellness Trust Fund

The general assembly created the North Carolina Health and Wellness Trust Fund (HWTF) in 2002 as one of three entities in which to invest the state's funds from the tobacco master settlement agreement. The fund supports youth programs with a smoking prevention focus. HWTF receives a fourth of the state's tobacco settlement funds. Since HWTF's inception, at least $15 million annually has gone toward the Teen Tobacco Use Prevention and Cessation Initiative (TTUPC). TTUPC is funded at $17 million from 2007 through 2009. Interested organizations apply annually through a request for proposals process. In 2006, 63 grants were awarded to provide services in all 100 North Carolina counties; grants were made to 39 community-based organizations and 20 colleges, and four statewide grants were made to focus on communication with minority youths. All grantees use a comprehensive approach to address their tobacco prevention goals. The Tobacco Control and Prevention Branch of the North Carolina Department of Health and Human Services provides technical assistance to all community and school grantees.

Considerations

- Trust funds require an infusion of resources at their inception. Trust fund administrators gladly welcome windows of opportunity, such as the tobacco master settlement agreement, huge hospital conversion projects, or other events that generate significant resources.
- Funds allocated through a trust fund may be easier to control than other budgetary accounts. Once regulations governing the trust fund are established, however, they tend to be difficult to change.
- Depending on their structure, trust funds can leverage and accept additional resources from the private sector, including resources from individuals, foundations, and businesses.
- A trust fund can serve as more than a funding mechanism. With proper oversight and administration, a trust fund can also provide a structure to improve the coordination of public and private resources.
- If a trust fund is of sufficient size, expenditures can be limited to the interest that accrues on the account, creating a sustainable funding source that does not require additional allocations.

Elements for Success in Implementing Dedicated Revenue Mechanisms

In many ways, the success of states and communities in implementing dedicated revenue mechanisms to support youth programs is a combination of hard work and good timing. Although many states and communities have successfully implemented dedicated revenue sources for multiple programs and services, a large number of proposals for new sources are never enacted. Experience shows that the following elements are critical to the success of implementing dedicated revenue sources.

Communicate a Clear and Compelling Reason for Raising the Funds

When efforts to create a dedicated revenue source have been successful, both policymakers and the public have seen a clear and compelling need for these resources. Polling data on key issues facing a community can provide guidance on the importance of particular issues and how much public support can be expected. If the issue is not among those most important to voters, it is unlikely to have the support needed for passage. Exploring historic patterns of voter support for education and services for children and youth may shed some light on potential support for new revenues for youth programs.

Involve a Broad Base of Supporters

Successful efforts to implement dedicated revenue sources require strong support from various groups. These efforts usually involve a broad base of stakeholders that, in the case of proposed funding for youth programming, could include parents, youth advocates, health providers, education officials, and law enforcement personnel. Successful efforts also need broad voter appeal; the voting public needs to feel strongly enough about these issues to vote for or support new revenue sources. Key champions are another essential element. A popular mayor, state legislator, business leader, school official, or community member who is willing to use his or her clout in support of the new revenue source is important for success. Program leaders can help build a broad base of support by convening community forums or organizing other activities to galvanize support.

Gain Knowledge of State or Local Laws and Regulations

To pass or implement any of the dedicated revenue source strategies, advocates need to be knowledgeable about, or have the support of others who are knowledgeable about, the relevant state or local legislative and regulatory processes. Creating new revenue sources, whether through legislation, executive order, or voter initiative, requires a clear understanding of the necessary processes as well as support from a broad audience. Oftentimes the regulatory processes will also determine how new funds will be used, what accountability measures will be implemented, and how funds will be distributed to agencies and programs. Being a part of these important conversations can help ensure that the new revenue reaches the intended programs in ways that promote effective usage. Program leaders can help influence these conversations by getting to know decision makers. Attending public forums and participating in hearings are two ways to get involved. Another approach is to invite decision makers to visit programs. Seeing programs firsthand will help illuminate issues and challenges in funding that can be addressed during rulemaking and program design conversations.

Engage the Public

Implementing a new dedicated revenue source requires educating the public and building support for the cause. Effective public will-building requires providing the public with basic information about the need for programs and services and a compelling reason for investing in a particular initiative (e.g., youth programs). Here, too, specific skills and know-how, along with funding, are needed to develop and distribute editorials, promotional materials, and advertisements for newspapers and radio and television programs. This work should also include a strategy for dealing with any opposition. Young people can be effective partners in making the case for more resources for youth programs. If the public has negative feelings about youth, then sharing positive stories about, as well as providing opportunities to interact with, youth leaders who are working to improve outcomes for themselves and their peers can be a powerful means to engage the public.

Clearly Assess the Public's View of a New Revenue Stream

Before investing time, energy, and fiscal resources, advocates for the additional funding must undertake a strategic assessment of the economic and political viability of creating a new revenue stream. This strategic assessment should include discussions with policymakers regarding their support; conversations and strategy sessions with advocates regarding their willingness to move forward with this approach; an assessment of what the competing priorities are in the community; and how receptive the community generally is to raising new revenues. In addition, advocates need to be fully aware of any costs of administering and promoting particular strategies. For example, tax checkoffs and special license plates have administrative and promotional costs that can reduce net income from the project. If the strategic assessment is positive, efforts to implement new revenue sources are more likely to succeed.

Build on the Experiences of Successful Initiatives

When working to develop and implement a dedicated revenue source, it makes good sense to seek out people or organizations that have successfully done this in the past. Regardless of whether voters or legislators are being asked for this funding, it helps to work with people who have accomplished a similar victory. Keep in mind that in many ways the process of creating a dedicated revenue source is similar to a political campaign. Stakeholders may need to use the same resources a campaign staff uses—pollsters, field staff and communications experts—to be successful. Why reinvent the wheel when others have already learned the relevant lessons through previous experiences.

Emphasize Fiscal Accountability

Voters and legislators are often skeptical of government's ability to use money wisely and properly, and thus can be reassured when strict fiscal accountability measures figure prominently in the design and promotion of the idea. Here, program leaders can provide essential input to policymakers to ensure that accountability measures are effective without placing unnecessary and unrealistic burdens on programs.

Conclusion

Dedicated revenue mechanisms hold the promise of increasing funding for youth programs. This brief examined six strategies to create dedicated revenue sources for youth programs that are working in communities across the nation. The examples and considerations for success can help youth advocates, policymakers, program leaders, and intermediary organizations assess the viability of a plan for implementing dedicated revenues in their states and communities. This brief also brings to light the fact that creating a dedicated revenue source for youth programs requires support from advocates, policymakers, program leaders, and intermediary organizations. Working in partnership, each has important resources to contribute to ensure that new revenue strategies are sound and are implemented in ways that enable programs to access needed funding.

Additional Resources On Local and State Revenue Enhancement Strategies

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Helping leaders finance and sustain initiatives that lead to better futures for children, families, and communities.

The Finance Project is an independent nonprofit research, consulting, technical assistance, and training firm for public and private sector leaders nationwide. We specialize in helping leaders plan and implement financing and sustainability strategies for initiatives that benefit children, families, and communities. Through a broad array of products, tools, and services, we help leaders make smart investment decisions, develop sound financing strategies, and build solid partnerships. To learn more, visit www.financeproject.org.

Sustaining and Expanding Youth Programs and Policies

This publication is part of a series of tools and resources on financing and sustaining youth programming developed by The Finance Project with support from Philip Morris USA. These tools and resources are intended to assist policy makers, program developers and community leaders in developing innovative strategies for implementing, financing and sustaining effective programs and policies. To access these resources and for additional information on this project, visit www.financeproject.org/irc/yp.asp.

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