prenatal-to-3 policy IMPACT CENTER
VANDERBILT UNIVERSITY

POLICY BRIEF
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# Securing the Future

## Examining Dedicated Sources of Funding for Child Care Subsidy Programs

Access to high-quality child care is essential for a family's active workforce participation and children's healthy development. Child care is not just a service—it is crucial infrastructure that supports economic stability and growth both for families and states. Research shows that child care subsidy programs—which help make child care more affordable for families with low incomes—promote parents' ability to work and complete education and training programs. It is no surprise that providing adequate support for these programs has garnered bipartisan support, with policymakers across the political spectrum eager to find sustainable solutions.

State funding mechanisms earmarked for child care subsidies have the potential to provide much needed resources to support transformative changes in early childhood education. The long-term stability and predictability gained from these sustainable sources of funding can enable states to implement tailored approaches that effectively meet their unique needs. This is particularly important as states grapple with the expiration of relief funds.

The following list highlights examples of recently created state-level funding streams currently used to support child care—and child care subsidy programs, in particular—including excise taxes, oil and gas revenue, payroll contributions, and capital gains taxes.

## Excise Taxes

Excise taxes are typically levied on the manufacture, sale, or consumption of specific goods and services. Common examples include alcohol, tobacco, sports betting, casino gambling, marijuana, vaping, and fuel. States have the option to increase taxes on goods and services that are already taxed, or they can authorize new services, such as sports betting or casino gambling, to generate additional revenue streams.

### Louisiana

The Louisiana legislature established the **Early Childhood Education Fund** supported by taxes on hemp-derived CBD products, land-based casinos, fantasy sports betting, and sports betting in 2019. Every year, 25% of the total revenue is allocated to the Fund, but the amount is capped at $20 million. The Fund offers local communities a 1:1 match to subsidize child care seats for infants and toddlers. As of August 2024, the Fund had a balance of $43.8 million.

## Oil and Gas Revenue

Oil and gas are a significant source of revenue for states rich in natural resources. This revenue is typically generated through taxes, royalties, and leases on oil and gas extraction. States often use these funds to support key public services, such as education and infrastructure. In some cases, states have established permanent funds, allowing oil and gas revenues to be invested for long-term growth, with a portion of the earnings distributed annually. States have the option to increase taxes on existing oil and gas activities or to expand taxable activities to boost revenue for critical public investments.

### New Mexico

New Mexico allocates funding for the Early Childhood Education and Care Department (ECECD) through two funding streams derived from oil and gas revenue: the Early Childhood Education and Care Fund, and the Land Grant Permanent Fund. The Department oversees all early care and education programs, including the child care subsidy program.

- **The Early Childhood Education and Care Fund** was originally endowed with $300 million by the legislature in 2020 and had grown to $7.1 billion in 2024. During the 2024 legislative session, legislators enacted legislation to distribute the greater of 5% of the value of the fund or $250 million to the ECECD annually.
- **The Land Grant Permanent Fund** was established through New Mexico's entry into statehood in 1912 and generates revenue through leases and royalties produced by non-renewable natural resources—primarily oil and gas. In 2022, the state passed Constitutional Amendment 1 via ballot measure, amending the state constitution to expand the Land Grant Permanent Fund withdrawal for the ECECD to 1.25%, providing approximately $150 million annually. Historically, this fund was used as an endowment for public K-12 and higher education.

## Payroll Contribution

A payroll contribution is levied on wages and salaries, typically split between employers and employees. These contributions are commonly used to cover the cost of programs such as Social Security, Paid Family and Medical Leave, and unemployment insurance. States have the option to adjust the contribution rate or expand the scope of applicable wages to increase funding for essential services and programs.

### Vermont

In 2023, the **Vermont** legislature approved a 0.44% payroll contribution—covered 75% by employers and 25% by employees—that will be used to support affordable, accessible, and quality child care. The contribution, which went into effect in July 2024, is expected to generate approximately **$82 million** in Fiscal Year 2025.

## Capital Gains Tax

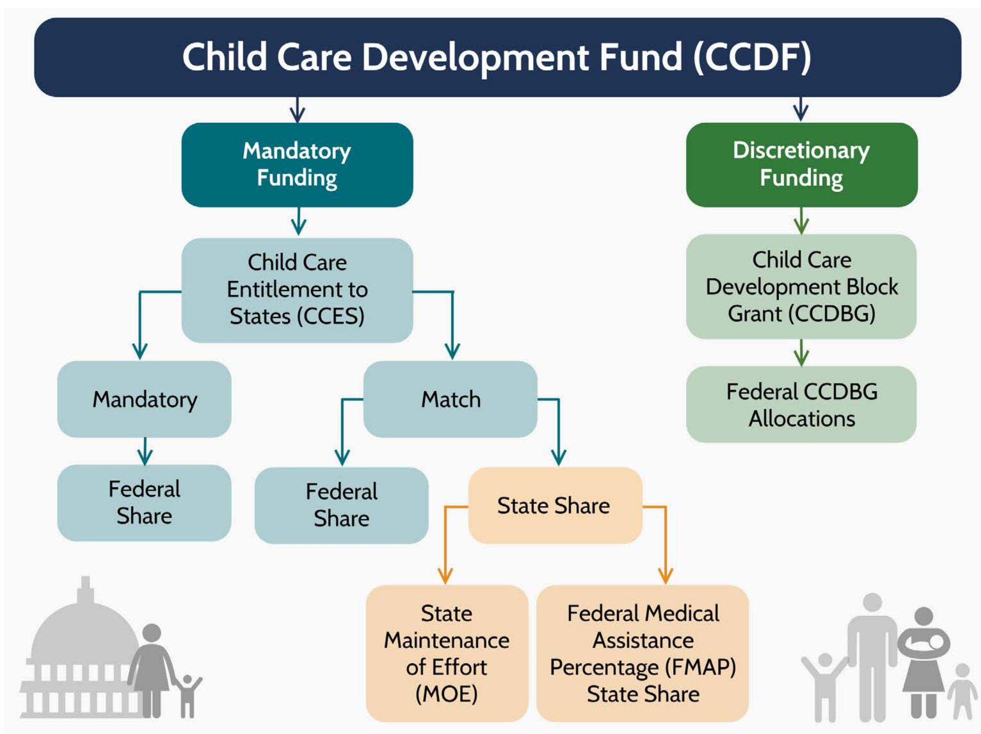
A capital gains tax is imposed on individuals on the profit earned from the sale of investments or assets, such as stocks, real estate, and other financial securities. This tax, filed as part of an annual income tax return, targets the gains realized from the increase in value of these assets over time. Capital gains taxes are often used to fund various public services, including education, health care, and infrastructure. States can choose to make changes to the capital gains tax rate or adjustments to the definition of taxable gains.

### Washington

In 2021, the **Washington** legislature enacted a 7% tax from capital gains on the sale of financial assets to fund child care subsidies, Head Start, and the state's kindergarten readiness program. The tax, which applies only to profits exceeding $262,000, raised nearly **$786 million** for FY2024. Of the revenue collected, up to $500 million is allocated for public schools and early care and learning each year.

## Leveraging All Available Federal Resources

In addition to developing dedicated funding streams, states can maximize resources by meeting the required matching funds to access all available federal dollars from the Child Care Development Fund (CCDF), the largest public funding stream for child care. CCDF consists of two federal appropriations that flow from the federal level to states: the Child Care Development Block Grant (CCDBG) and the Child Care Entitlement to States (CCES).



CCDBG funds are allocated by annual congressional appropriations, and states do not need to provide matching funds to receive them. CCES, on the other hand, is automatically distributed to states without congressional action and requires states to contribute their own funds. States that provide matching funds at the federally set level receive the maximum federal contribution available. If a state contributes less than the required amount, the federal government reduces its matching funds proportionally.

States can also leverage other federal funding sources, such as Temporary Assistance for Needy Families (TANF) funds, which offer flexible options to support child care. States can transfer up to 30% of TANF funds to CCDBG and directly allocate funds to child care services. Maximizing these federal resources can further bolster needed funding to support families and drive economic growth.

## Additional State Early Care and Learning Funding Sources

States also use dedicated funding streams to support early care and learning programs beyond child care subsidies, such as pre-kindergarten, preschool, early childhood development and health, and other state-specific initiatives. Some of the funding sources available include state lotteries, corporate activities taxes, Tobacco Master Settlement Agreement funds, state sales taxes, casino gambling taxes, and excise taxes on cigarettes, tobacco, vaping, and marijuana.

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