School Readiness Tax Credit$:

The Advocacy Efforts in Three States

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Contents

Methodology and Acknowledgments

This paper does not endeavor to be an exhaustive review of every article published about tax credits or the tax credits available in Louisiana, Nebraska, and Colorado that relate in some way to early childhood education. This paper focused on the advocacy efforts using interviews of key leaders and stakeholders in each state and at the national level and a review of web-based materials.

The reflections and opinions expressed in this case study are solely those of the authors.

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1 Introduction

High-quality early care and education is strongly supported by research as a critical foundation for school and life success. Most of the financing of early childhood education rests on parents' ability to pay. Although the lowest income families are eligible for Head Start and Early Head Start, federal appropriations reach less than half of the eligible preschoolers and less than 10 percent of the eligible babies and toddlers. Child care subsidies, largely federal funds and a state partial match, are not keeping pace with demand, and in many states, funding for prekindergarten is limited and funds only a portion of the day and year. In addition to providing financial assistance to families, the public financing also needs to be sufficient to operate the licensing and other quality accountability systems; promote and support quality improvements; assist early childhood educators with scholarships for education, coaching, and other professional development; support resource and referral to help parents and providers; and sustain the costs of administering funding streams and quality controls.

Tax expenditures are another financing mechanism, also at the federal and state levels. For example, there is the federal Child and Dependent Care Tax Credit, which some states are replicating as well.[1] School readiness tax credits are gaining popularity among state advocates and policymakers. The National Conference of State Legislators' legislative tracking database on early childhood education tax credits and incentives lists 34 bills introduced in 2018 and 22 in 2019.[2]

This paper examines the advocacy efforts that led to the successful Louisiana adoption of School Readiness Tax Credits in 2007 and subsequent changes in the credits, the Nebraska approach nine years later, and the recent Colorado addition of a tax credit specific to early childhood educator compensation.[3] Each state has its own political and policy landscape, yet a common factor is that each of these states leans conservative in its fiscal approach to social programs, including early childhood education.

Advocates in all three states shared the same goal of using a financial carrot to improve quality and advocated for the same financing mechanism. This review highlights both the similarities and the differences in these advocacy efforts and presents lessons for other advocates as they consider tax credits as an element in their quest for a well-financed system of high-quality early childhood education in their states.

2 Overview of the Louisiana and Nebraska School Readiness Tax Credits and the Colorado Early Educator Income Tax Credit

Louisiana

In 2005, Louisiana's early childhood advocates produced an economic impact study of the early childhood industry. The report, "Investing in the Child Care Industry: An Economic Development Strategy for Louisiana,"[4] included an examination of different tax policies and made a recommendation that "A quality rating system can also be used to guide certain tax policy that can then incentivize the use of quality care."[5] The study lead was Geoffrey Nagle, then at Tulane University, who would go on to be a key creator of the 2007 School Readiness Tax Credits.

Louisiana's School Readiness Tax Credits consist of five tax credits for different stakeholders: parents, providers, educators, resource and referral agencies, and businesses. Four of the five are refundable credits, and there is no sunset clause in the legislation.

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[1]Matsui, A., Making Care Less Taxing: State Child and Dependent Care Tax Provisions, National Women's Law Center (2018) at https://nwlc-ciw49tixgw5lbab.stackpathdns.com/wp-content/uploads/2018/12/Final_Report_NWLC_MCLT.pdf

[2]National Conference of State Legislatures, Early Care and Education Bill Tracking (12/3/19) Early Childhood Financing, search "tax credit," http://www.ncsl.org/research/education/education-bill-tracking-database.aspx

[3]Colorado previously adopted, and recently renewed, a contribution tax credit. We opted to examine only the early educator income tax credit because of the circumstances and advocacy that led to its enactment following the release of the National Academies of Sciences expert panel report on the early childhood workforce.

[4]Nagle, G. and Reinvesting in the Child Care Industry: An Economic Development Strategy for Louisiana. February 2005. Retrieved at http://s3.amazonaws.com/mildredwarner.org/attachments/000/000/122/original/report-5e7829e0.pdf

[5]Ibid.

Eligibility for the credit is directly linked to participation, employment, or contribution to a provider who participates in the child care subsidy system and holds a level on the state quality rating and improvement system. These credits form a comprehensive approach to incentivizing and rewarding better quality early childhood education for low-income children and have withstood a variety of changes in the political and policy landscapes.

One such shift was the enactment in 2012 of Act 3—the Early Education Reform Act. Under this new statute, the administration of the child care subsidy program moved to the state's Department of Education, new kindergarten readiness standards were announced, a new accountability system replaced the former quality rating and improvement system, a new teacher credential was required for all teachers in publicly funded classrooms (to be fulfilled by 2019), and the start of an early childhood care and education network was to be fully realized by the 2015–2016 school year.

With continued bipartisan support for the tax credit financing strategy and constant advocacy from the early childhood field and business leaders, the tax credits received a significant boost in funding in 2017. This increase not only improved the value of the credits, it also gave the Department of Education another opportunity to work on the professional development and quality accountability systems. The state instituted a new credential, the Early Childhood Ancillary Certificate, and a new quality rating system based on the Classroom Assessment Scoring System.

Nebraska

In 2016, early childhood education advocates in Nebraska very deliberately modelled their proposed School Readiness Tax Credits on Louisiana's. The 2013 enactment of the state's quality rating improvement system laid the groundwork for the effort to replicate Louisiana's tax credit approach. The sponsor of the bill, Senator Heath Mello, worked (when the legislature was not in session) as a senior advisor at the Holland Children's Movement, a nonpartisan not-for-profit organization whose stated mission is "to ensure Nebraska children and families are prioritized in state budget and policy decisions through strategic advocacy, public engagement and effective collaboration."[6] There, he worked closely with experts who had learned about Louisiana's credits through various national stakeholder channels. Together, with support from the architects of the Louisiana credits, they developed a legislative proposal with four credits. By the end of the legislative process, they were successful in passing two of the original four proposed credits: (1) a nonrefundable tax credit for owners and operators of early childhood programs participating in the subsidy program and with a minimum quality rating of three, and (2) a refundable tax credit to staff employed in such programs. The enacted legislation also included a sunset of the credits in 2021.

In 2017, just as the credits were set to be implemented, the legislature considered delaying their implementation by two years in order to help address a large budget shortfall. Ultimately, after a hearing in which advocates testified to the importance of the credits to the Nebraska economy across the state,[7] the legislature left the tax credit intact and instead cut non-tax spending by 4 percent.

Colorado

Like Louisiana and Nebraska, Colorado is a fiscally conservative state. Tax credits are a popular spending mechanism in the state. The newly enacted refundable Colorado Early Educator Income Tax Credit is not the state's first foray into school readiness tax credits. In 2018, Colorado renewed for the second time its Child Care Contribution Tax Credit, and it has a Low Income Child Care Expense Credit, a Child Care Provider Investment Tax Credit, and a Child Care Expense Credit linked to the federal Dependent Care Tax Credit.

The Colorado Children's Campaign has been the lead advocate in finding ways to finance early childhood education, including the newest refundable income tax credit for early childhood educators. In 2017, the Early Childhood Leadership Commission gave its approval to the Colorado's Early Childhood Workforce 2020 Plan,[8] created under the private-public partnership of the state's departments of education and human services and Early Milestones Colo-

[6]https://hollandmovement.org/
[7]https://www.nebraskalegislature.gov/FloorDocs/105/PDF/Transcripts/Revenue/2017-03-28.pdf
[8]https://earlymilestones.org/wp-content/uploads/2016/12/ec_wkfc_2020-plan.pdf

rado. Tax credits were among the recommendations, but not highlighted in this report. That same year, as required by the legislature, the Colorado Department of Higher Education released its strategic plan to address teacher shortages, including a specific recommendation, "Institute Tax Credits for Early Child Care Providers and Education Professionals."[9]

The new tax credit benefits early childhood educators working in licensed family child care and centers, Early Head Start and Head Start programs that have achieved at least level two on the state's quality rating and improvement system and that participate in the child care subsidy program. The amount of the credit increases commensurate with the level of professional qualifications. The bill, signed by the governor in May 2019, will be implemented January 1, 2020, and sunset on January 1, 2025. Beginning in 2021, the Department of Revenue will adjust the credit to reflect inflation.

3 Political Appeal

Louisiana

The School Readiness Tax Credits in Louisiana have weathered changing governors of differing political parties. The creation of the credits occurred at the end of the term of a Democratic governor, Governor Blanco, when advocates recognized that there likely would be a change of political affiliation in the next state administration. Tax expenditures, however, had an appeal to both the outgoing Democratic governor and the incoming Republican governor.

While proposing dramatic state budget cuts in 2015, the succeeding Governor Jindal (Republican), pointedly safeguarded the School Readiness Tax Credits. As one advocate noted, Governor Jindal was very knowledgeable and articulate on early care and education. However, it was the form of tax expenditures that interested him politically. As appropriations for the child care subsidy program continued to decline, he stood by the tax credits. That year he publicly stated, "We're going to have a balanced budget on Feb. 27, all expenditures – all options – are on the table, and you heard me say today, that includes tax credits where there is no real tax liability." He also announced that he would not target two refundable tax credits: the School Readiness Tax Credits and the Earned Income Tax Credit.[10]

The governor's announcement that he would protect the School Readiness Tax Credits and EITC sent a signal to legislators who did not want to leave any credit out of consideration for a reduction or elimination.[11] Fast forward to 2017, the Chairman of the Revenue Committee announced at a hearing reviewing a slew of state tax credits that not only would he support the School Readiness Tax Credits, he would move to increase the expenditure by roughly a third.

Nebraska

In 2015, school readiness tax credits legislation was introduced, but failed to advance before the close of the 60-day legislative session. The following year, advocates pivoted to a new legislative champion.

The unique unicameral legislative branch in Nebraska creates a special situation for advocacy strategy. Each senator may designate one priority bill, which places it at the top of the committee agenda and greatly increases the likelihood it receives a public hearing and will be debated by the legislature.[12, 13] For their second attempt, the advocates shifted their legislative champion to the Chair of the Appropriations Committee. Senator Mello, Chairman of the Appropriations Committee, was serving in his last year as a legislator due to term limits and decided to prioritize the school readiness tax credits. He gained important cosponsors to the bill—the Chair of the Health and Human Services Committee, the Chair of the Education Committee, and the Chair of the Retirement Committee.

Colorado

Although there were primarily Democratic governors in the years that the early childhood tax credits

[9]Colorado Department of Higher Education, Executive Summary, Colorado's Teacher Shortages: Attracting and Retaining Excellent Educators, (2017) at https://highered.colorado.gov/Publications/Reports/teachereducation/2017/COTeacherShortageStrategicPlan_Dec2017.pdf

[10]Bobby Jindal is likely to leave some tax credits for low-income families alone. Julia O'Donoghue, The Times-Picayunne, February 24, 2015 at www.nola.com/news//politics/article_206.

[11]Ibid.

[12]https://nebraskalegislature.gov/FloorDocs/Current/PDF/Rules/RuleBook.pdf

[13]http://legislative.ncsa.org/sites/default/files/media/Legislative-PDF/Legis_Process.pdf

were enacted and renewed, the Colorado House and Senate have had many years of Republican majorities since 1992.

Coloradans elected a new governor to begin his term in 2018, a former member of the U.S. House of Representatives, where he showed a strong interest in early care and education. Although the new governor supported the early educator tax credit legislation, his legislative push for full-day kindergarten drew much more attention from his office and education advocates. The bill was introduced with bipartisan sponsorship, and it advanced through committees and final passage with bipartisan support.

4 Expertise in Tax Policy and the Fiscal Note

Louisiana

For the 2007 creation of the school readiness tax credits, advocates strongly noted the benefit of working with a seasoned tax lobbyist. Not only did he understand tax policy, he had solid and long-time relationships with the tax committees of the legislature and with those responsible for finance within the executive branch. Early childhood advocates did not have such strong relationships with those committees and agency staff. They had the luck to work with a Department of Revenue staffer who had young children and wanted to do something that felt good with taxes and social policy for children. Through the process, this relationship helped teach advocates how to write the legislation so that it was easier for the Department of Revenue to implement and revise the fiscal note to be more palatable to budget-concerned legislators while maintaining the value of all the credits.

This choice of partner advocate was extremely important when the original legislation received a large fiscal note. Legislators wanted to reduce the cost, and the ability to work closely with fiscal staff to work out a fiscal note that would be palatable to legislators while also sustaining all of the credits and keeping each at a meaningful amount was critical. They were able to provide cost models to the writers of the fiscal note to reduce it from $44 million to $26 million without jeopardizing the purposes and structures of the tax credits.

Nebraska

The $10 million fiscal note of the original four credits sparked concern among legislators.[14] Early in the February 3, 2016, hearing, a senator raised the size of the fiscal note and the need to prioritize among the credits. The lead sponsor responded that there was an amendment in the works to "dramatically reduce the fiscal note."[15] To reduce the fiscal note to $3 million, the Revenue Committee made major changes in the two months between a public hearing and passage: it cut the number of credits from four to two, reduced the size of the credits, increased the minimum program quality for eligibility, added a five-year sunset date, added a cap of $5 million, and made the program credit nonrefundable, which acted to make nonprofit child care programs ineligible. This work was done behind the scenes, and there was not a public-facing or grassroots effort among advocates to influence the ways in which the proposal was scaled back to achieve a much smaller fiscal note.

Colorado

The Colorado Campaign for Kids, with its partners in early childhood, think tanks, and the business community, has deep experience with tax credit legislation. This experience and the relationships with the relevant committees enabled them to place the Early Educator Income Tax Credit among the legislative priorities after the budget determination and to negotiate changes that would reduce the fiscal note to a level with wider political appeal while retaining key elements of a wage supplement tied to quality.

In 2019, legislators set priorities for funds remaining after they set the budget. Colorado's unique approach to the state budget and spending puts a laser review on the fiscal note for any program or tax expenditure. The fiscal note for the Early Educator Income Tax Credit as introduced was roughly $11 million over 4 years. There were many priorities among legislators, and although there was not much

[14]Fiscal Note, Legislative Fiscal Analyst Estimate for LB 889, Prepared by Doug Gibbs, February 1,2016 at https://nebraskalegislature.gov/FloorDocs/104/PDF/FN/LB889_20160202-120713.pdf

[15]Transcript Prepared by the Clerk of the Legislature, Transcriber's Office, Revenue Committee February 03, 2016.

opposition to this tax credit, the size of the credit had to fit within other spending priorities.

The Colorado budget process left advocates with a victory and a dilemma. Although the tax credit was well situated on the priorities list for remaining bills, the original fiscal note was too expensive. Led by the Children's Colorado Campaign, advocates made adjustments to the credit in timing, eligibility, and amount that trimmed the fiscal note while still getting some wage enhancement for early childhood educators.

5 Messages and Messengers

Louisiana

Louisiana advocates, like others across the country, conducted in 2005 a study of the economic impact of the child care industry, led by Mildred Warner at Cornell University and Louise Stoney. The state had recently adopted an early childhood quality rating and improvement system. Putting these developments together, Geoffrey Nagle looked to ways to improve the funding in the fiscally conservative state that would add to the appropriations for child care and prekindergarten programs.

The leading message of the impact of the child care industry as an important element in the state's economic development drew support from the business community and the United Way. Governor Blanco described the legislation as economic development. Although the credits are aimed at incentivizing quality improvements, the economic arguments were front and center in the early creation of the credits.

Over time, the Louisiana Policy Institute for Children produced impressive fact sheets and reports and built up the grassroots advocacy on behalf of the credits, linking economic messages with quality early childhood messages. In 2017, four groups co-authored the report, *Losing Ground: How Child Care Impacts Louisiana's Workforce Productivity and the State Economy*,[16] which urged the legislature to make a significant investment in accessible, quality child care. Losing Ground became the foundation of a report by The Chamber of Commerce Foundation, Louisiana: A Case Study on Business Advocates for Childcare that outlined the short and long-term workforce interests of business leaders and encouraged them to use their influence to advocate for early childhood funding.[17]

As more programs entered the voluntary quality rating and improvement system, the message of the credit as a driver of better quality also became more useful and made it harder to decouple them. The expanded numbers of teachers and directors who met the standards for claiming the credit also grew, leading to more grassroots advocacy to sustain and increase the credit as well as other early childhood funding. With messengers from inside the field and those in prominent business roles, the tax credits retained bipartisan support through changes to the state's early childhood system and to the state's fiscal developments.

Nebraska

Nebraska's advocacy approach similarly focused more squarely on statewide benefits to the credits as economic drivers than on the benefits to children. Nebraska's early childhood advocates used the economic impact messages in hearing testimony and advocacy materials. In its testimony at a February 2016 committee hearing, the Holland Children's Movement firmly planted the economic message: "Unlike other industries, the childcare industry serves Nebraska children and families, supports working Nebraska families, hires Nebraska-based teachers, all of whom spend their money in local Nebraska economies."[18] The Nebraska Chamber of Commerce also submitted testimony in support of the bill. The tone of the hearing was very positive overall, though there was concern among some senators with the size of the fiscal note.

Accountability was also a message that resonated with the legislature. Advocates noted that the tax credit could be sold as an accountable policy because

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[17]US Chamber of Commerce Foundation. Leading the Way Toolkit. Louisiana: A Case Study on Business Advocates for Childcare. October 17, 2017 Retrieved at https://www.uschamberfoundation.org/sites/default/files/EarlyEd%20Toolkit%20-%20Louisiana%20Case%20Study.pdf

[18]Testimony of Sarah Ann Kotchian, Transcript Prepared by the Clerk of the Legislature, Transcriber's Office, Revenue Committee, February 03, 2016.

of its nexus to the quality rating and improvement system that had been implemented just three years earlier. Likewise, in the hearing in 2017 that considered delaying implementation of the credits, the five-year sunset built into the legislation was also framed as a strong accountability tool that would require the state to revisit the efficacy and impact of the credits in order for their continuation.

Champions also benefited from messaging that relied on Louisiana's story. Geoff Nagle who had led the Louisiana School Readiness Tax Credits, testified in support of the Nebraska legislation,[19] and advocates note that his ability to use data from Louisiana to convey the impacts of the Louisiana legislation was very helpful. Senators brought up early and repeatedly the Louisiana experience—mainly with concerns about the cost. In his testimony, Nagle stated, "I think the ultimate frame that really gave great comfort to the legislature in Louisiana was that this was really as much of an economic development as it was child development."[20]

Colorado

Like Louisiana and Nebraska, the economic impact of a strong early childhood industry and family economics was a leading message. The Colorado Fiscal Institute, which typically does not support new tax expenditures, had its name jointly with the two leading early childhood advocacy organizations on the advocacy handout that circulated widely. Although not a player in the negotiations, the fact that the Colorado Fiscal Institute gave the tax credit bill its blessing was very helpful, especially with certain legislators who looked to them for progressive tax policy analysis and recommendations. In addition, the Small Business Majority, a messenger from outside of traditional early care and education interests, testified in support of the credit. Their messages included quality and access, but their special role was to urge the passage of the credit as a way to boost and expand family child care and support child care for small business owners. "Indeed, more than 1 in 3 (36%) small business owners who are also parents said a lack of access to affordable, high-quality child care was a barrier to starting their businesses."[21]

The Early Educator Income Tax Credit, however, had a direct connection to another timely message. In 2017, Governor Hickenlooper signed a bill directing the Colorado Department of Education and Department of Higher Education to examine teacher preparation, recruitment, and retention, and to provide a strategic plan to address the shortage of teachers across the state.[22] The same year, the National Academy of Sciences produced its expert panel report, *Transforming the Early Childhood Workforce,* that led to a group of stakeholders, the Colorado Cohort, convening in 2017 to develop the EC Workforce 2020 Plan. One of the Plan's objectives is a better compensated early childhood workforce, and the report identified activities to "Develop and implement innovative strategies to expand funding for wage and benefit enhancement programs (e.g., WAGE$, tax credits, loan forgiveness, wage supplements)."[23]

A few months later, a group of state think tanks published a report Bearing the Cost of Early Care and Education in Colorado: An Economic Analysis, as part of the Transforming the Early Childhood Workforce in Colorado project. Among its four recommendations, one focused on early childhood educators:

> Institute tax credits for early care and education professionals. At a time when the state has greatly increased professional development and educational expectations for early care and education professionals, it is more important than ever to recognize increased skill development with appropriate wage increases. One option for improving workforce retention, reducing turnover, and compensating professionals for their increased educational attainment is to institute professional tax credits that award refundable, graduated tax credits to early childhood educators who earn increasingly higher levels of education and credentials.[24]

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[19]https://nebraskalegislature.gov/FloorDocs/104/PDF/Transcripts/Revenue/2016-02-03.pdf

[20]Ibid.

[21]Statement for the Record Before the Colorado General Assembly Education Committee on HB 19-1005: Early Childhood Educator Tax Credit, January 22, 2019, Hunter Railey, Colorado Outreach Manager, Small Business Majority.

[22]Colorado House Bill17-1003.

[23]Colorado's Early Childhood Workforce 2020 Plan. (June 2017) Retrieved at https://www.cde.state.co.us/early/copdplan

[24]Franko, M., Brodsky, A., Wacher, A., Estrada, M. (2017). Bearing the Cost of Early Care and Education in Colorado: An Economic Analysis. Denver: Butler Institute for Families, Graduate School of Social Work, University of Denver.

6 Ongoing Threats and Opportunities

Louisiana

The Louisiana School Readiness Tax Credits have weathered threats of cuts or even elimination by legislators, particularly when the state faced economic downturns. When Louisiana had budget surpluses in fiscal years 2007 and 2008, the political response was to cut taxes on middle income and more affluent taxpayers, reducing the tax base by $800 million a year. The national recession followed, money for the Hurricane Katrina recovery petered out, and the price of oil fell (a major part of the Louisiana economy). The general fund was reduced by nearly a third. Lawmakers looked not only to appropriations, but also to each of their tax credits and whether they could be reduced or eliminated as they wrangled with the budget. As a senator reminded witnesses in a hearing, "not all exemptions and exclusions are created equally."[25]

Act 3 of 2012, a major school reform effort, mandated a "comprehensive and integrated delivery system for early childhood care and education" with all federal- and state-funded programs to be administered through the State Board of Elementary and Secondary Education. While Act 3 changed standards and accountability measures toward a uniform system of early care and education, there were no new funds to meet those changed standards. The School Readiness Tax Credits had to be realigned to the new, universal rating and accountability system, and a new child care teacher credential. Aligning to standards was only part of the work; there also had to be cost estimates. It was very helpful to the advocates that the lead in the department had a degree in business and was willing to work with them on new cost models.

Another critical moment arose in 2016. The Senate Revenue & Finance Committee undertook a review of tax credits. Senators were impressed, particularly with the return on the investment by spending locally rather than "offshore" like other credits. A senator stated that he was so impressed with the information on the importance of investing in birth to three-years-old that the state should be expanding the investment in those ages. Yet another senator put forward that if the committee had to make cuts (e.g., reductions or repeals of any credit), why should they retain these credits? Advocates responded that the state general fund appropriations had cut child care assistance to the bone. Without these tax credits and an approved waiver request from the federal government to use them as the state match to draw down the Louisiana allocation of Child Care and Development Block Grant funds, they would lose the federal investment which is considerably bigger than the state funds.

The chair of the committee noted that many of the credits up for review, including an education tax credit, had not had a single witness come before the committee to ask for their continuation. By contrast, there were panels of witnesses in support of the School Readiness Tax Credits and the quality of information about its economic and education impact was impressive. So taken by the amount of data and the grassroots advocacy, Senator Morell, chairman of the Senate Finance Committee, decided to increase the credits by shifting $5 million from another underutilized education credit to the School Readiness Tax Credits. He introduced a resolution, citing a long list of positive impacts of the credits between 2008 and 2015, taken from a report by the National Women's Law Center,[26] and ended with

> Therefore be it resolved that the Senate of the Legislature of Louisiana does hereby urge and request the State Board of Elementary and Secondary Education to adopt emergency rules… to revise qualifications for the School Readiness Tax Credits for eligible child care staff...to capture a portion of the proceeds from the repeal of the Education Tax Credit to be used for child care teachers beginning with the 2018 calendar year.[27]

The shift meant a one-third increase in the credits as a whole. The new fiscal note and the accompanying new policies went to the legislative committees in the spring, and the changes took effect December 1, 2017. Although a successful year for the tax credits, the legislatures also made cuts to prekindergarten

[25]Senator Carter. Hearing before the Louisiana Senate Finance and Revenue Committee. April 14, 2016.

[26]Campbell, N.D., Entmacher, J., Blank, H.R., Matsui, A.K. (2015) ExtraCredit: How Louisiana Is Improving Child Care. National Women's Law Center.

[27]Enrolled Senate Resolution No. 2019, by Senator Morrell. 2017 Regular Session.

and child care assistance, resulting in a waiting list for families eligible for the child care subsidies.

Nebraska

From the start, there were threats to the Nebraska School Readiness Tax Credits. Proposed as four credits to support different parts of the early childhood education system, the final legislation did not enact the credits to help parents with the costs or to spur business contributions.

Nebraska's credits were vulnerable almost immediately, not because of the type of financing or the purpose of the credits, but because of dramatic state budget problems in 2017 and 2018. The governor instructed the legislature to address the shortfalls without raising taxes. Some legislators proposed delaying the implementation of the new School Readiness Tax Credits in order to help address the budget shortfall. They argued that the credits had not yet been claimed, and so no one would be harmed by their delayed implementation. At the 2017 hearing before the Revenue Committee, the Buffett Early Childhood Institute at the University of Nebraska countered that "In a time of fiscal constraint, tax credits that have not yet been put into effect may seem to be a simple, easy solution, but this neglects the long-term impact of what these credits are designed to do – improve the quality of care for our youngest citizens and support the small businesses and individuals who provide that care."[28]

The work to improve the tax credits is ongoing. Nebraska advocates have set a goal of eliminating the sunset provision and technical fixes to provisions that unintentionally made self-employed individuals ineligible for the workforce credit and S-Corp programs ineligible for the center credits. Thus far, these changes have not been enacted, but the legislated sunset of 2021 could be as much of an advocacy opportunity as a threat. Given the saliency of accountability messaging, it will be important for advocates to have data demonstrating the impact and reach of the credits.

Colorado

Colorado has a very high rate of teen vaping.[29] On April 24, 2019, at an event with public health advocates and students, Governor Polis announced a new bill introduction to put on the ballot a tax increase on cigarettes and a new tax on nicotine vaping products.[30] If passed by the voters, it would have generated roughly $300 million a year in new revenue. The legislation split the revenue evenly between health and early childhood education, specifically allocating the funds to the Department of Education "to improve the availability, affordability and quality of voluntary early childhood education…and expanded learning opportunities program."[31]

With less than two weeks remaining in the 2019 session, an amendment was added in the Appropriations Committee to the Early Educator Income Tax Credit legislation:

> "(2) (a) This act takes effect only if, at the November 2019 statewide election, a majority of voters do not approve a referred measure that allows the state to increase the cigarette tax, increase the tobacco products tax, and to create a new tax on nicotine products and use a significant portion of the tax revenue for preschool programs and 9 expanded learning opportunities.
>
> (b) If the voters at the November 2019 statewide election do not approve a measure described in subsection (2)(a) of this section, then this act takes effect on the date of the official declaration of the vote thereon by the governor."[32]

Arguably, early childhood gained either way—a new revenue source with partial dedication to early childhood or a refundable tax credit dedicated to supplementing wages of early childhood educators. The legislative session finished without the nicotine tax referral to the ballot and with the enactment of the Early Educator Income Tax Credit to take effect in January 2020.

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[28]Testimony of Dr. Susan Sarver, Director of Workforce Planning and Development, Buffett Early Childhood Institute at the University of Nebraska, Revenue Committee Hearing, Nebraska Legislature, March 28,2017 retrieved at https://buffettinstitute.nebraska.edu/-/media/beci/docs/sarver-testimony-am707-srtc.pdf?la=en

[29]John Daley, Colorado Public Radio, Vaping: CDC Says 25 Percent of Colorado High Schoolers Use E-Cigarettes, June 26, 2018 at https://www.cpr.org/2018/06/26/vaping-cdc-says-25-percent-of-colorado-high-schoolers-use-e-cigarettes/

[30]John Daley, Colorado Public Radio, State Lawmakers Aim to Temper Teen Vaping Rates With Big Tax Increases, April 25, 2019 at https://www.cpr.org/2019/04/25/state-lawmakers-aim-to-temper-teen-vaping-rates-with-big-tax-increases/

[31]Colorado HB19-1333 at https://leg.colorado.gov/bills/hb19-1333

[32]HB1005_L.010 House Committee of Reference Amendment, Committee on Appropriations at https://s3-us-west-2.amazonaws.com/leg.colorado.gov/2019A/amendments/HB1005_L.010.pdf

7 Lessons Learned

The coupling of economic and quality impact messages is important to the advocacy success. Given that tax credits are decided by committees that focus on economic impact, the economic development message is critical. Each of these states embedded the tax credit in a quality incentive and reward system, which helped promote accountability and the importance of quality early childhood education to school readiness. As business leaders and other indirect stakeholders embrace the importance of quality programs and services to their goals of school and work readiness, the linking of the economic and quality impacts helps create a broader and stronger advocacy effort.

The structural model and experience of Louisiana still resonates for other states. Louisiana's approach, and its ability to sustain and even increase the credits, remains the standard for other states. Because of its longevity, and the hard work of stakeholders to continuously document the positive impact of the credits, the model resonates with other state lawmakers. Louisiana's conservative political leanings provided similarly important saliency for Nebraska legislators. No other state to date has fully replicated Louisiana, but its own "lessons learned" about the importance of having strong tax skills or colleagues with those skills, the structural qualities of the package of credits, how it can adapt to shifting early care and education policy changes, continue to be well-received by other states considering this approach.

K–12 Education reforms and concerns can pose an opening for early childhood credits. Colorado advocates leveraged the political concern at the state's K–12 teacher shortage to improve the compensation of early childhood teachers outside of public school settings. Although not the primary concern, the issue of early educator quality and turnover and the specific recommendation of the tax credit modeled on Louisiana made it into a K–12 report. That said, the Colorado advocates continued to rely on an economic impact message and not solely rest on the teacher shortage model for their successful passage of an income tax credits for early childhood educators outside of public school settings.

Tax credits have bipartisan appeal, but, like other financing, they can also be at risk during difficult state budget years. In these three states, the legislation has garnered bipartisan support. Financing through the tax code can be more attractive to fiscal conservatives, although not immune to threats when a state's economy takes a downturn. It is too early to tell if Nebraska and Colorado will be able to extend the tax credits beyond their legislated sunsets, but the bipartisan support should put advocates on firmer ground.

The ability to negotiate the fiscal note is critical. The size of the fiscal note is important to legislators concerned about budgeting. In each of these states, the original fiscal note was much higher than legislators were willing to adopt. It is important for advocates to be able to propose alternatives that will keep the credit meaningful in size to the beneficiary while recognizing the fiscal concerns of legislators. The negotiations and revising of the fiscal note usually happen behind closed doors. Advocates need not only the ability to put forward accurate estimates of future use, but also to have the relationships with those who calculate the fiscal note for the legislature in order to have a voice in the revisions. The credits can have a long lifespan without change, and so the ability to hold on to the size of the credit and its recipients is important to its impact on incentivizing quality, helping with affordability, and ongoing support.

Tax credits, when well structured, can strengthen other components of the early childhood system, specifically quality rating and improvement and professional pathways. Because the tax divisions need to authenticate the credit claims, these tax credits have strengthened workforce registries and quality accountability systems. The interconnection makes it more difficult to undo one component without dismantling other important components, an advocacy advantage in tight state budgets.

Tax expenditures are a complementary component of a financing strategy, not the silver bullet for the inadequacy of early care and education funding overall. These three states have not seen dramatic increases in state appropriations for child care. Yet advocates in each state firmly believe that the legislators in their states do not view the tax credits as a substitute or trade for direct appropriations. Early care and education already rests on a mixture of financing mechanisms, primarily through appropriations, but also tax expenditures. Tax credits can be targeted to specific concerns such as educator compensation, but they do not fill the gaps in affordability and access, even quality, by themselves. Moreover, they are a supplement to the federal and state funding for child care, prekindergarten, and other early childhood education programs and services.

8 Timelines of Key Actions

Louisiana

2007 Enacts the School Readiness Tax Credits Quality Start, the quality rating and improvement system, is implemented

2008 Credits take effect

2012 Act 3—The Early Childhood Education Act passes the legislature and requires the State Board of Education to create a comprehensive, integrated network to manage and oversee all programs, funded through federal or state resources that provide early care and education services.

2013 The Department of Education submits plans and recommendations to the designated stakeholders, which provided review and feedback; the final report is sent to each member of the legislature.

2015 New policies are piloted for the accountability system and the new early childhood credential.

2016 Department updates the Advisory Council and, in coordination with Department of Revenue, creates a small workgroup

2017 School Readiness Tax Credits re-aligned to the new Early Childhood Ancillary Certificate

2018 Early Childhood Care and Education established to create a master plan for ECE by 2019

2019 Early Childhood Ancillary Certificate required for lead teachers in Type III child care centers

Nebraska

2013 QRIS—Step Up to Quality is enacted by legislature

2015 School Readiness Tax Credits bill introduced, but does not receive hearing or consideration in committee or legislature

2016 School Readiness Tax Credits bill introduced
Hearing held in Revenue Committee
Significant revisions to bill in Committee
Bill passed into law

2017 Revenue Committee holds hearing on proposal to delay implementation by two years to help address state's $1 billion shortfall. Committee does not act on proposal. Credits take effect.

2018 Bill introduced to eliminate sunset provision, increase credit amounts, raise funding cap to $10 million, fix technical problem that keeps self-employed individuals ineligible for the workforce credit and S-Corp programs ineligible for the center credits. Bill does not advance.

2019 Bill introduced to address technical program that excludes self-employed individuals and S-Corp programs. Bill does not advance.

Colorado

2017 Early Childhood Workforce Survey

2018 Interim Commission report on teacher shortages

2018 Renewal of the Contribution to Child Care Tax Credit

2019 Jared Polis becomes governor

January—Introduction of the Early Educator Income Tax Credit

April—Bill introduced to refer to the ballot a tax on nicotine.

May—Amendments in House Appropriations Committee that lead to a lower fiscal note.

May—Signed by governor

9 Statutes and Other Guidance

Louisiana

Child Care Expense Tax Credit - R.S. 47:6104 http://legis.la.gov/Legis/Law.aspx?d=453233

Child Care Provider Tax Credit — R.S. 47:6105 http://legis.la.gov/Legis/Law.aspx?d=453234

Credit for Child Care Directors and Staff — R.S. 47:6106 http://legis.la.gov/Legis/Law.aspx?d=453235

Tax Credit for Business-supported Child Care — R.S. 47:6107 http://legis.la.gov/Legis/Law.aspx?d=453236

Tax credit for Donations to Resource and Referral Agencies — R.S. 47:6107 http://legis.la.gov/Legis/Law.aspx?d=453236

Guidance, Louisiana Department of Revenue and Department of Children and Family Services – LAC 61L1.1903 http://revenue.louisiana.gov/LawsPolicies/LAC61_I_1903.pdf

Nebraska

Nebraska School Readiness Tax Credit Act—Nebraska Revised Statute 77-3601—77-3607, NebraskaLegislature.gov/laws/statutes.php?statute=77-3601

Notice, School Readiness Tax Credits Act—March 2019
https://revenue.nebraska.gov/sites/revenue.nebraska.gov/files/doc/info/School_Readiness_Notice.pdf

Colorado

Early Educator Income Tax Credit—http://leg.colorado.gov/bills/hb 19-1005

10 Selected Reports on School Readiness Tax Credits

Stoney, L. & Mitchell, A. Using Tax Credits to Promote High Quality Early Care and Education Services, Partnership for America's Economic Success. (2007) at http://www.earlychildhoodfinance.org/downloads/2007/2007UsingTaxCreditsEC&EQuality.pdf

Blank, S. & Stoney, L. Tax credits for early care and education: Funding Strategy in a New Economy, Opportunities Exchange (2011) at http://www.earlychildhoodfinance.org/downloads/2011/OpEx_IssueBrief_Tax_Final1.pdf

Campbell, N.D., Entmacher, J., Blank, H. & Matsui, A. ExtraCredit: How Louisiana Is Improving Child Care, National Women's Law Center (2015) at https://nwlc.org/wp-content/uploads/2015/08/final_nwlc_louisianataxcreditsreport.pdf

Hamm, K. & Martin, C., A New Vision for Child Care in the United States: A Proposed New Tax Credit to Expand High-Quality Child Care, Center for American Progress (2015) at http://www.earlychildhoodfinance.org/dev/wp-content/uploads/2016/07/Hamm-Childcare-report1.pdf

Stoney, L. & Bronfin, M., Giving Credit Where It's Due: School Readiness Tax Credits Benefit Louisiana Families and Communities, Louisiana Policy Institute (2016) at https://0cd902dd-9de1-4dae-8781-4a355ebda8df.filesusr.com/ugd/20d35d_12a743491b814db99e85ae3cde0a4907.pdf

Davis, B., Bustamante, A., Bronfin, M., & Rahim, M.C. Losing Ground: How Child Care Impacts Louisiana's Workforce Productivitiy and the State Economy. (2017) at https://www.policyinstitutela.org/untitled-cpyv

Lieberman, A. Lessons from the Bayou State: Three Reforms for Improving Teaching and Caregiving, New America (2018) at https://d1y8sb8igg2f8e.cloudfront.net/documents/Lessons_from_the_Bayou_State_2018-11-13_023853.pdf

11 About the Authors

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