

Modified from
Developing Dedicated State and Local Revenue Sources for Afterschool

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February 11, 2004

Examples of State policy, appropriation, revenue enhancements and tax changes

- Developing a dedicated revenue source for a specific education/children's services/early care purpose or a package of purposes;
- Creating a new line-item in a state or local government's appropriation bill;
- Expanding the purpose of an existing budget item and increasing the appropriation for it;
- Including an add-on weight in a state's school finance formula for children with a particular need or background;
- Developing a new competitive grant program as part of a larger school reform or children's initiative;
- Simply increasing the appropriation steadily for an existing budget item that may have remained stagnant;
- Allowing for local tax levy increases for particular purposes if some local body approves it (e.g., by school board, local council, or referendum).
- Earmarking a portion of lottery funds for specific education purposes.

Generating Financing Options

- Maximizing federal, state, and local funding
- Making better use of existing resources
- Creating more flexible funding streams
- Creating public-private partnerships
- **Generating new revenue**

Dedicated Revenue Sources

Advantages:

- Tend to yield stable and predictable funding
- Affords protection
- Can be used as a match for other private and public resources

Disadvantages:

- May become a ceiling rather than a floor
- If not structured to account for changing conditions, may not keep pace with need
- Difficult to put in place

1. Budget line items

- Dedicated items in a state/local budget. *Summer Bridges (IL) and Support Our Students (NC)*

Considerations:

- Requires legislative support
- Subject to annual/regular appropriations process

2. State Funding Formulas

- Funding generated according to an allocation from a state/local program.

Considerations:

- May require voter or legislative support
- Very stable
- Amount may vary depending on formula basis

3. Fees and narrowly-based taxes

- Generating revenue from fees or taxes on specific segments of economic activity. *Excise tax on beer (AR)*

Considerations:

- Amount of revenue generated dependent upon the continued use of the good, service, or facility
- Generates less revenue than broad-based taxes
- Be mindful of nature of good or service on which fee or tax is based
- Revenue from some fees and taxes may be unstable
- Marketing campaigns may be needed

4. Special Tax Levies

- Increase existing tax rate (i.e. property, personal income, sales or business); new revenue is earmarked for specific purposes. *Families and Education Levy (Seattle, WA)*

Considerations:

- May require a referendum or ballot initiative
- Be mindful of fairness of tax on which levy is based
- Stability of revenue generated will vary by tax base
- Political feasibility dependent upon local tax sentiment

5. Children's Trust Funds

- Separate designated account in the public treasury with special rules for funds allocated to it. *Children's Initiative Trust Fund (Kansas)*

Considerations:

- Funds may be easier to control than other budgetary accounts
- May be able to leverage additional resources from private sector
- If it is of sufficient size, expenditures can be limited to the interest that accrues on the account

6. Lotteries and Gaming

- Using proceeds to support programs and initiatives for children and families *Education Lottery for Pre-K (Georgia)*

Considerations:

- Philosophical objections
- Funding amounts vary by year (state of economy)
- Pressure to use funding for other purposes

7. Income Tax Check-Off

- Allowing taxpayers to designate a portion of their tax liability or to donate a part of their refund to specific services or programs. *Quality Child Care Voluntary Tax Check-off (CO)*

Considerations:

- May be easier to sell than other tax strategies since voluntary
- Participation rates tend to be low (i.e., generates little revenue) and participation hard to predict
- Local requirements and circumstances will dictate feasibility (e.g., not option if no state income tax)

8. Special Taxing Districts

- Independent units of government with taxing authority dedicated to a specific purpose; generate revenue from property taxes. *Children's Services Districts (FL)*

Considerations:

- Tend to provide stable and reliable funding
- District boards may be able to better coordinate existing resources
- How boundaries are drawn will affect the board's ability to raise revenue and direct benefits
- Requires significant political resources

Framework for Choosing Strategies

- Appropriateness and fairness of tax or fee base
- Likely stability and adequacy of revenues generated
- Extent to which strategy can be used to improve coordination of resources
- Political feasibility
- Maintenance of effort clauses

Dedicated Revenue Sources: Key Lessons

- Creating new dedicated revenue requires broader public support and buy-in than other strategies
- Current economic environment may be hostile to many broad-based tax strategies (e.g. sales tax, income tax, property tax)
- Not all revenue sources keep pace with the demand for funds over time (e.g. sin taxes, voluntary check-offs); some actually decline over time.
- It is often easiest to make the case for new dedicated revenue if you can demonstrate that you are making the best use of resources already in the system and maximizing available federal and state funds
- There's no good substitute for good luck and good timing. Choice must take into consideration the economic, demographic, and political context.