State Strategies for Sustained Investment in Kids: A Landscape of Dedicated Funding

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CHILDREN'S FUNDING PROJECT

Table of Contents

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Executive Summary

States across the United States are increasingly using specific sources of revenue, separate from their general budgets, to provide stable, long-term funding for programs and services for children and youth outside of the K-12 school day. These funds are dedicated through actions by state legislatures or through ballot measures approved by voters.

Dedicated funding for children and youth comes from a variety of sources of state revenue. Common approaches include dedicating portions of **general sales** and **excise taxes**—such as those on tobacco, marijuana, and vaping—to support early education and youth programs. Some states have also used revenue from the Tobacco Master Settlement Agreement to fund early childhood initiatives. Gambling-related taxes, including lottery and sports betting, have been directed toward pre-K and youth services in several states. Other states have leveraged **progressive taxes**, such as payroll, corporate activity, or **capital gains taxes**, to invest in early learning. Additionally, states have used **land and resource trust funds**, investment interest, and **general fund allocations** to sustain programs ranging from child care to youth mental health support and educator pay equity. These examples reflect how some states have chosen to use dedicated funds to date, but they do not represent the full range of possibilities for supporting children and youth.

Understanding how states have successfully created dedicated funding streams for children and youth is critical for informing and inspiring similar efforts elsewhere. This paper outlines these strategies to help advocates, policymakers, and community leaders identify viable revenue options; learn from the experiences of other states; and build effective campaigns tailored to their own legal, political, and economic contexts. By highlighting the range of approaches—along with the advocacy, coalition building, and planning that made them possible—this resource serves as a practical tool for advancing more sustainable and equitable systems of support for children and youth nationwide.

Introduction

Ensuring all children in the United States have the opportunity to grow and thrive requires significant public spending at all levels of government. Prior to the COVID-19 pandemic, nearly two-thirds of all public spending on children came from state and local governments, about $11,410 per child in 2020.[1]

States that spend more on programs and services for children see improved behavioral, educational, and economic outcomes across a wide array of metrics. For instance, states that spend more on health care through Medicaid programs score higher on child well-being indicators, as seen in outcomes related to family economic security, health, safe/risky behaviors, educational attainment, community engagement, social relationships, and emotional/spiritual well-being.[2] Though federal investments increased in response to the COVID-19 pandemic, pandemic-relief programs have expired and the federal government is expected to considerably reduce its spending on children between 2025 and 2028.[3] Advocates for children and youth will need to secure state funding that maintains and expands support for children and families to fill in the gaps that result from reductions in federal spending.

Historically, advocates for children and youth have needed to fight to maintain or increase funding for state programs and services as part of their state's annual budget process. These battles for line-item funding from state general funds require a massive commitment of time and resources from advocates year after year. State budgets in particular are sensitive to a variety of issues like economic downturns and changes in the political environment, and in recent years state budgets have been strained by an increasing trend of successive tax cuts.[4] In some states, advocates have circumvented the constraints of a limited general fund and the annual budget appropriations process by creating dedicated funds for children and youth.

State dedicated funds are distinct streams of public revenue that are set aside for specific purposes, typically dedicated through action by a legislative body, approved by voters via ballot measure, or a combination of these approaches. These funding streams are distinct in that they come from a specifically identified source of public revenue, often a new tax, increased tax, or set-aside of specific tax revenue. In this paper we focus on state funds dedicated to funding child and youth programs and services—inclusive of cradle-to-career services such as prenatal care; early childhood health, development, care, and education; and other forms of support for children and youth from birth through age 24. We exclude K-12 and higher education, which typically have more established and consistent funding streams than other programs for children and youth.

Revenue that is dedicated to a special purpose falls outside the typical general fund and budget-making process that legislatures go through (in most cases)[5] annually and is therefore somewhat protected from the volatility that affects annual program appropriations due to changes in political priorities. A lasting benefit of a dedicated fund is that it can offer sustainable, long-term funding, which helps to build a stable system of services and programs. For example, service providers and families that rely on dedicated state funding can budget more than one year at a time, allowing them to make longer-term investments in quality improvement, facilities, staff education, and other key elements of evidence-based programs and services.

A crucial element of dedicated funds is that they are more public in nature, creating greater accountability to the people in their state. Dedicated funding at the state level can either be established through the legislative process or can be approved by voters through a ballot measure. Ballot measures are a politically advantageous pathway to establish dedicated funding because they draw on the voice and power of voters, which in turn makes it harder for the state legislature to undermine the fund. Additionally, ballot measure campaigns are a great way to create awareness around important issues and build a statewide coalition of people who care about children's issues.

Dedicated funding for kids has been established in an array of states with different geographical, political, and demographic compositions, including rural states, small states, large states, and states whose voters vote predominantly for one party, whether the Republican Party or Democratic Party. These funds vary in the amount of revenue they collect annually, ranging from tens of millions of dollars to hundreds of millions of dollars. For example, the **Tennessee Education Lottery**, which passed by a ballot measure in 2002, raises $25 million a year for the state's voluntary preschool program and after-school programs while **South Carolina passed a sales tax** in 1984 that dedicates $861 million annually to early childhood education.

Regardless of how they source their revenue, funds like these are instrumental in supporting programs and services that children and families rely on, including child care, preschool, home visiting, and after-school and summer learning programs. This paper focuses on these areas outside of what are often considered core services, like health care or K-12 education, since they are less visible in state budgets but equally essential to helping families and communities thrive.

Revenue Options

States that currently dedicate funding for kids raise revenue from a variety of taxes and other sources. These variations stem from legal limitations on the revenue options available to individual states and the unique political and economic climates of each state. For example, **New Mexico** was able to dedicate a portion of revenue from its land trust fund to early childhood education. While every state may not have a similar resource available, we believe that every state can find one or more sources of revenue to dedicate to support programs for children and youth.

This section briefly reviews revenue mechanisms that fund *existing* state dedicated funds. Note that this information is provided at a high-level and as a starting point for policymakers and advocates to consider in their own states; it is advisable to develop a larger **strategic public financing** plan that includes a **fiscal map**, **cost model** estimating the true cost of care, gaps between existing and needed funding, and research about **potential revenue options** to fully understand the available options and their potential pros and cons in a given state.[6]

What's the Difference Between Progressive Taxes and Regressive Taxes?

A **progressive tax** is one in which upper-income families pay a larger share of their incomes in tax than do those with lower incomes. Examples of progressive taxes include income taxes, gross receipts taxes, and capital gains taxes.

A **regressive tax** makes middle- and low-income families pay a larger share of their incomes in taxes than the rich. Examples of regressive taxes include sales taxes and excise taxes.

General Sales Taxes

Sales taxes are a tax on the consumption of goods or services that are typically calculated as a percentage of the retail price and added to the final price paid by the consumer. Sales taxes are one of the most common ways states raise revenue; all but five states impose a statewide general sales tax.[7] In 2021, general sales tax revenue brought in $375 billion for states.[8] Sales tax revenue represents nearly 30% of states' overall **own-source revenue**, second only to personal income tax.[9] States have the opportunity to raise significant amounts of revenue for children's programs by dedicating existing sales tax revenue or raising new sales tax revenue, either through raising tax rates or by closing loopholes in the existing sales tax system. For example, in 1984 **South Carolina** began dedicating a portion of the state's sales tax revenue to public education projects, which includes preschool programs.

When considering raising new sales tax revenue there should be a discussion about the cost of the distributional impact of sales taxes as compared to the benefits of raising significant revenue. Specifically, sales taxes have a regressive feature in that they tend to create a larger burden on low- and middle-income families than wealthier families.[10] However, policymakers can take (and in many states already have taken) steps to make sales taxes more equitable by offsetting the cost to families through targeted refundable tax credits[11] and by exempting goods such as food, prescription drugs, period products, and other necessities.[12]

Excise Taxes: Tobacco, Nicotine, Vaping, and Marijuana

Raising revenue through taxes on cigarettes, vaping, nicotine, and tobacco has historically been a particularly popular way of raising revenue for children and youth. These types of taxes are considered excise taxes—taxes on the sale of specific goods or services. Excise taxes are commonly imposed on products that are considered unhealthy or socially undesirable in part to disincentivize people from consuming the product or taking part in a certain activity. As a result, excise taxes are commonly known as "sin taxes."

States have used a variety of approaches to tax cigarettes, tobacco, and nicotine. In some cases, tobacco products are taxed per unit via a "specific tax" (ex. a tax levied per pack of cigarettes or ounce of smokeless tobacco) while others are levied "ad valorem," meaning they are taxed based on the sales price. In the past decade, some states have adjusted their excise taxes on tobacco and nicotine products to ensure that e-cigarettes and vaping products are subject to taxation (which are commonly taxed by ounces of vaping liquid or as a percentage of the total price).[13]

Over the past decade, taxes on marijuana have also become an increasingly popular way to raise revenue as medical and recreational marijuana has been legalized in dozens of states. Marijuana can be taxed by the percentage of the price, the weight of the product, or its potency. States vary widely in how much cannabis tax revenue they collect, with Alaska bringing in $29 million while California took in $774 million in fiscal year 2022.[14] (Different states sometimes refer to the same tax by different names; for example, some states use "marijuana" while others refer to it as "cannabis.") Taxes on tobacco, nicotine, vaping products, and marijuana are often supported by both political parties and can raise significant amounts of revenue. However, the challenge of excise taxes is that they are designed to discourage people from buying certain products, so the amount of revenue collected by the state could, by design, reduce over time as people consume less of the product. Similar to general sales taxes, excise taxes are also regressive, meaning low-income individuals spend a higher percentage of their income on these taxes than higher-income individuals.[15]

Taxes on Gambling: Casino Tax, Sports Betting Tax, and Lottery

Taxes levied on gambling-related activities are a type of excise tax, but notable enough to deserve their own section. State governments raise revenue from a variety of gambling-related sources including casinos, racetracks, video games, lotteries, and sports betting. Most state gambling revenue comes from lotteries ($24.4 billion in fiscal year 2021),[16] where the state government collects a share of the revenue from every lottery ticket that is purchased. For instance, the **Georgia Lottery for Education** was established in 1992 and raises $1.2 billion annually for early childhood education and higher education. State revenue from other forms of gambling, like casinos, is often collected from the gambling operators' revenue. State revenue from casinos totaled approximately $8.5 billion in 2021.[17]

Another form of gambling revenue that has become popular over the past few years is generated by taxes on sports betting. A 2018 Supreme Court case (Murphy v. National Collegiate Athletic Association) overturned a law that banned commercial sports betting in most states.[18] Since that time, about three dozen states have legalized some form of sports betting and 30 states have levied taxes on it.[19] Most states impose a flat tax on a sportsbook's revenue, which is a share of the profits after losses. In 2022, states brought in $1.5 billion in sports betting tax revenue, with New York, Illinois, and Pennsylvania each collecting over $100 million in revenue.[20] Some states already use this revenue to fund children's programs; in Louisiana, a portion of the state's dedicated funding for early child care comes from sports betting revenue. As more states look to legalize sports betting, advocates should be ready to position programs for children and youth to receive some of the funds.

Public Settlement Agreements

Related to excise taxes on consumption goods with injurious side effects like tobacco, revenue from the Tobacco Master Settlement Agreement of 1998 is another common source of funding that states have dedicated to programs and services that support children and youth. The Tobacco Master Settlement Agreement was the largest class action lawsuit in U.S. history. In 1998, attorneys general from 46 states entered a settlement agreement to recover the Medicaid costs of caring for smokers. The four largest tobacco companies agreed to significantly limit their marketing of cigarettes and pay states $206 billion over 25 years.[21]

Several states including Connecticut, Missouri, Kentucky, and Kansas use tens of millions of dollars from the settlement every year to help fund various preschool programs, child care, and programs to support children's health and welfare.

Social Media Lawsuits

Across the country, states, schools, localities, Native nations, and families are suing Big Tech companies for the harms caused to youth by social media. Children's Funding Project and Afterschool Alliance are leading a national coalition of advocates who believe potential large-dollar settlements or other payouts from these lawsuits should go to historically underfunded after-school and other programs that promote connection and youth well-being. Learn how to get involved at **childrensfundingproject.org/social-media-lawsuits.**

Advocates can learn lessons from the tobacco settlement experience by staying aware of other large public litigation and preparing to engage policymakers to appropriate settlement funds for children and youth. In 2021, major settlements were reached in litigation against the largest opioid distributors and producers, resulting in billions of dollars to be distributed to states, counties, cities, and Native nations over a period of 18 years with recurring annual payments starting in 2023.[22] Litigation against social media companies in particular has picked up steam, with bipartisan groups of attorneys general (as well as hundreds of individuals and school districts) filing suits alleging that social media companies have made their products purposely addictive and harmful to young people.[23]

Taxes on Income and Assets

Taxes on the income and other assets of businesses and individuals can take many forms; for the purposes of this paper, we highlight the payroll tax, corporate activity tax, capital gains tax, and revenue raised from public lands as these are income- or asset-based taxes that have been dedicated to support funding for children and youth.

Whether assessed on personal or corporate income and wealth, income- and asset-based taxes are distinct for their progressivity—meaning those with the greatest ability to pay are subject to higher tax rates. This is in contrast with the regressive nature of consumption taxes like sales and excise taxes, where lower income households pay higher relative tax rates because they have to spend a greater share of their budget on taxable goods and services than households with higher incomes.

PAYROLL TAXES

Payroll taxes are mandatory deductions from an employee's wages, typically calculated as a percentage of their earnings, which can be paid by either or both the employee and employer. Many states utilize payroll taxes to finance social insurance programs like paid family and medical leave;[24] the federal government levies payroll taxes to finance Social Security and Medicare. In 2023, Vermont became the first state to utilize a dedicated payroll tax to fund child care. Because payroll taxes are typically "flat," meaning that they are assessed at the same rate for high- and low-income earners, they are less progressive than income taxes that levy different rates on different levels of income.

GROSS RECEIPTS TAX

A gross receipts tax is a tax levied on the commercial activity of businesses in the state. Unlike a corporate income tax, which is applied to revenue after subtracting expenses, the tax base of a gross receipts tax is a business's total revenue. These taxes can apply to all business entities—such as S-corporations, partnerships, sole proprietorships—and not just those registered as C-corporations, and can be paid in addition to the state corporate income tax.

In 2019, the **Oregon** state legislature passed a gross receipts tax called a corporate activity tax that raises revenue for K-12 and early childhood education. This tax raises hundreds of millions in revenue annually and the tax burden largely falls on wealthy shareholders, making it highly progressive.

CAPITAL GAINS TAX

Capital gains taxes are taxes on the profit earned from the sale of an asset, such as stocks, real estate, or a business. The tax applies to the difference between the purchase price and the sale price when that difference is positive.

Nearly every state that taxes income has a capital gains tax, though rates and treatment vary. Several states and the federal government tax income from capital gains at a lower rate than income from work. Additionally, both federal and some state capital gains taxes are higher for short-term gains (on assets held for less than a year) than for long-term gains. In 2022, **Washington state** became an exception among the nine states without a broad income tax when it implemented a 7% capital gains tax—specifically directing the revenue to fund early learning and child care programs, making it a notable example of using this progressive tax to invest in children and youth.

Taxes on capital gains are highly progressive, as these taxes primarily affect higher-income individuals, as they are more likely to own and sell high-value assets. Capital gains taxes are a highly progressive revenue source because the wealthiest Americans earn the vast majority of capital gains. In 2019, the top 1% of taxpayers reported about 75% of all long-term capital gains.[25] Taxing this income helps ensure those who benefit most from economic growth contribute more to the public good, making the tax system fairer and helping to reduce income inequality.[26]

Land and Resource Trust Funds

Land and resource trust funds represent another form of tax on assets. As states joined the Union in the 1800s, the federal government allowed them to set aside public land to generate revenue for public institutions, primarily focusing on public education. Today, 20 states hold around 46 million acres of land in trusts that generate revenue for public education.[27] State trust lands are especially common in western states, with around one out of every 20 acres of land in a state land trust.[28] States raise revenue from the trusted land through renewable activities (such as leasing the land to private companies for timber, grazing, or agriculture), nonrenewable resources sourced from the land (like selling leases for mining, natural gas, and oil), or selling off the land. States often put the proceeds from the land trust into a permanent fund that is invested and creates additional revenue from interest and dividends. States disperse the revenue to public institutions in different ways, either from the additional revenue generated by the permanent fund, directly from the land trust funds, or from both the permanent fund and the land trust fund.

In 2022, voters in **New Mexico** overwhelmingly approved a constitutional amendment to increase the percentage of annual revenue withdrawn from the state's Land Grant Permanent Fund from 5% to 6.25% and dedicate the additional funding to early childhood education and K-12 education. The ballot measure was expected to result in an additional $150 million for early childhood education and $100 million for K-12 education annually.

Income from Interest

Government funds can accrue interest by investing a portion of the fund in financial instruments such as government bonds, treasury securities, municipal bonds, and other low-risk investments. When a government entity establishes a dedicated fund—often sourced from tax revenue, fees, grants, or earmarked revenue streams—it can place that money in interest-bearing accounts or investment portfolios rather than spending it immediately. Over time, these investments generate returns through interest payments, dividends, or capital appreciation, depending on the type of asset. For example, government bonds pay regular interest, while treasury securities offer predictable returns based on market rates. The accrued interest and investment earnings can then be withdrawn periodically—often following rules that ensure long-term sustainability, such as limiting annual withdrawals to a fixed percentage of the fund's value. This system allows the government to use passive income to finance programs for children and youth, including education initiatives, health care services, and after-school programs, without depleting the fund's principal. For example, in 2021, the **Tennessee** legislature passed a law creating a K-12 mental health fund using one-time surplus revenue. The interest earnings from this fund are then transferred to an operating fund in order to pay for grants to support youth mental health services.

Lessons Learned: Advocating for State Dedicated Funding

The study of current state dedicated funds and how they came to be offers lessons to other advocates about steps they can take to generate and dedicate public revenue for children's programs in their states. Below are a few steps advocates should consider when planning their own initiatives.

Identify the Need and Build a Coalition

Most successful campaigns for dedicated funding form a diverse coalition of advocates for children and youth, including parents, program and care providers, educators, business leaders, and policymakers, and sometimes those working toward different but aligned goals such as tax fairness. Cultivating legislative champions is also key. Organizations such as labor unions that represent educators and business organizations can be powerful allies depending on your state and local political context.

Gather input from these groups to determine the specific needs of children and youth in your community. If possible, conduct surveys and public opinion polls, needs assessments, and create or utilize a **fiscal map** or **cost model** to gather data about the gap in available funding, target populations, and potential impact areas for investment. Collaborate with organizations and experts in tax policy and experts in the field of youth services, whether that be early care and education, after-school and out-of-school time programs, or other supports for children and youth.

Research Tax Options and Evaluate Feasibility

With your coalition, explore different tax sources with the following questions in mind:

- **Legality:** Consult tax policy and other revenue experts to determine the legal feasibility of different revenue sources—tax or otherwise—and whether your state needs to amend existing laws or enact new ones.
- **Dedication:** Determine if the revenue can be dedicated to a separate fund for children and youth, ensuring its protection and targeted use.
- **Political Feasibility:** Analyze the political climate, potential opposition, and support from key state and community groups and policymakers.
- **Progressivity/Regressivity:** Evaluate the revenue source's impact on different socioeconomic groups and consider ways to mitigate regressive effects, such as exemptions or targeted benefits.
- **Communication Power:** Craft a clear narrative linking the revenue source to the benefits of investment in children and youth. Highlight connections to benefits such as a productive workforce, family economic success, and closing gaps in educational outcomes between different groups.
- **Payer and Beneficiary:** Identify who bears the burden from the increased revenue and who benefits from the new investments. Where regressivity is a concern, prioritize targeting new investments to underserved populations to improve quality, affordability, and supply.
- **Timeliness:** Track and capitalize on emerging opportunities presented by the political and policy moment in your state.
- **Long-Term Strategy:** Develop a strategic plan outlining the long-term use and sustainability of the revenue. If possible, utilize a cost model to determine the funding gap and evaluate the funding source's (or multiple sources') capacity to address it over time. Note that it is challenging for a single revenue source to generate sufficient funding for all needs in a given priority area (see, for example, the **Louisiana dedicated fund**). Consider a combination of revenue sources and funding strategies for a comprehensive approach and adjust over time as needed.

Develop and Refine the Proposal

Select the most feasible and impactful revenue mechanism based on your research and evaluation. If the revenue source is a tax, structure it in a way that maximizes revenue generation while minimizing negative impacts on low-income families. Consider exemptions, progressive rates, targeted exemptions or credits, or well-targeted use of the funds. If the fund will be created through legislation, draft clear and concise language that specifies the purpose, structure, administration, and oversight of the dedicated children's fund. If the fund will be created by ballot measure, finalize the official ballot title and summary in accordance with your state law, outlining the same.

Build Momentum with Intermediate Policy Wins

In some states, it may be necessary to build momentum before generating and dedicating new public revenue to children and youth. As you study the stories of dedicated funding in other states, you'll notice that in some states, the establishment of a fund or special account within a state preceded, often by one or more legislative sessions, the allocation of any dollars to that fund. In New Mexico, dedicated revenue in 2022 was preceded by the creation of a fund and one-time seed funding in the 2020 legislative session. In Louisiana, the Early Childhood Education Fund was created in 2017 as a fund to hold matching dollars for local early childhood funding but wasn't allocated any state funding until 2019. Taking intermediate steps prior to pursuing dedicated revenue may be necessary to introduce and cement sustained funding for children and youth outside of the K-12 school day as a public good in your state's legislature.

Mobilize Public Support and Advocate for Passage

Launch a public awareness campaign to educate the community about the importance of investment in children and youth and the benefits of the proposed fund. Highlight successful examples of initiatives that have funded similar programs and services in other communities, such as those mentioned in this report. Emphasize the economic and social benefits of high-quality programs and services, such as increased workforce productivity, reduced crime rates, and improved educational outcomes. Address concerns about associated tax increases by proposing targeted and transparent use of funds and demonstrating accountability for the investment.

Engage with policymakers and elected officials to garner support for the revenue and dedicated funds proposal. Organize meetings, provide testimony, and mobilize constituents.

If available and preferred, pursue a ballot initiative or referendum to allow voters to decide on the fund creation and revenue mechanism. Ensure compliance with legal requirements and campaign effectively.

Implement the Revenue and Monitor Its Impact

Establish a transparent and accountable system for administering the dedicated fund. Involve parents, program and care providers, educators, business leaders, policymakers, and other key groups in decision-making and ensure equitable distribution of resources.

Track the revenue generated and its impact on programs for children and youth, availability, and affordability. Communicate the results of the fund to the public and policymakers to build ongoing support for the initiative.

By following these steps—identifying community needs, building a strong coalition, evaluating revenue options, crafting a thoughtful proposal, building momentum with intermediate policy wins, and mobilizing public and political support—advocates can lay the groundwork for creating sustainable, dedicated funds for children and youth. Securing dedicated funding is not a short-term campaign. It takes time, careful planning, and long-haul commitment. Success often depends on navigating complex political landscapes, responding to shifting public opinion, and refining your strategy over multiple years or even legislative sessions. But success *is* possible! The following state profiles show successful examples of how campaigns have managed to dedicate funds to children and youth across a variety of political and economic contexts.

State by State: An Accounting of Dedicated Funding

We have identified 22 states and territories with dedicated funds for programs and services that support children and youth. In figure 1 on the next page, for each location, we provide detailed public information about each fund, including the source of revenue, amount of funding, year enacted, and the ways in which the state or territory uses the funding. The individual profiles that follow the table are informed, where possible, by interviews with advocates and news stories that highlight how dedicated funding was secured for children and youth in the state.

Figure 1: Dedicated Funding by State

State/Territory	Revenue Source	Revenue Type	Year Enacted	Use of Funds	Annual Revenue Raised
Alaska	Cannabis Tax	Excise Tax	2018	After-School and Summer Programs	$2 million
Arizona	Tobacco Tax	Excise Tax	2006	Early Care and Education; Substance Abuse Prevention and Treatment	$100 million
California	Tobacco Tax	Excise Tax	1998	Early Care and Education; Substance Abuse Prevention and Treatment	$441 million
Colorado	Tobacco Tax	Excise Tax	2020	Pre-K; Public Education; Health	$203 million
Connecticut	Tobacco Settlement	Public Settlement Agreement	2014	Pre-K	$4.5 million
Connecticut	Marijuana Tax	Excise Tax	2021	Substance Abuse Prevention and Treatment; Youth Employment and Training	$5.8 million
Connecticut	General Fund Allocation	Income from Interest	2024	Early Care and Education	$300 million

(continued)

Figure 1: Dedicated Funding by State (continued)

State/Territory	Revenue Source	Revenue Type	Year Enacted	Use of Funds	Annual Revenue Raised
District of Columbia	General Fund Allocation	General Appropriation	2021	Early Care and Education	$70 million
Georgia	Lottery	Excise Tax	1992	Pre-K	$1.5 billion
Kansas	Tobacco Settlement	Public Settlement Agreement	1999	Early Care and Education	$50 million
Kentucky	Tobacco Settlement	Public Settlement Agreement	2000	Early Care and Education	$26 million
Louisiana	Sports Betting	Excise Tax	2017	Early Care and Education	$31.5 million
Maryland	Casino Tax	Excise Tax	2018	Public Education; Early Care and Education; Higher Education	$601 million
Massachusetts	Sports Betting	Excise Tax	2022	After-School and Summer Programs	$1.4 million
Missouri	Tobacco Settlement	Public Settlement Agreement	2013	Early Care and Education	$35 million
Montana	Interest	Income From Interest	2025	Early Care and Education	$10 million
Nebraska	Land Trust	Income from Interest	2006	Early Care and Education	$2.5 million

(continued)

Figure 1: Dedicated Funding by State (continued)

State/Territory	Revenue Source	Revenue Type	Year Enacted	Use of Funds	Annual Revenue Raised
New Mexico	Land Trust	Land and Resource Trust Fund	2022	Early Care and Education	$150 million
Oregon	Corporate Tax	Tax on Income and Assets	2019	Pre-K	$529 million
South Carolina	Sales Tax	Sales Tax	1984	Public Education; Early Care and Education	$93 million
Tennessee	Lottery	Excise Tax	2002	Public Education; After-School and Summer Programs	$18 million
Tennessee	General Fund Allocation	Income from Interest	2021	K-12 Mental Health	$6 million
Vermont	Payroll Tax	Tax on Income and Assets	2023	Early Care and Education	$80 million
Vermont	Marijuana Tax	Excise Tax	2020	After-School and Summer Programs	$3.7 million
Virginia	Marijuana Tax	Excise Tax	2021	Pre-K	$0
Washington	Capital Gains	Tax on Income and Assets	2021	Public Education; Early Care and Education	$890 million

Notes: Revenue has not yet been collected in Virginia due to ongoing implementation issues. See **Virginia's profile** within the section "Funding Profiles: Marijuana and Cannabis" for more details.

Figure 2: Timeline of State Dedicated Funds (Year Enacted and Use of Funds)

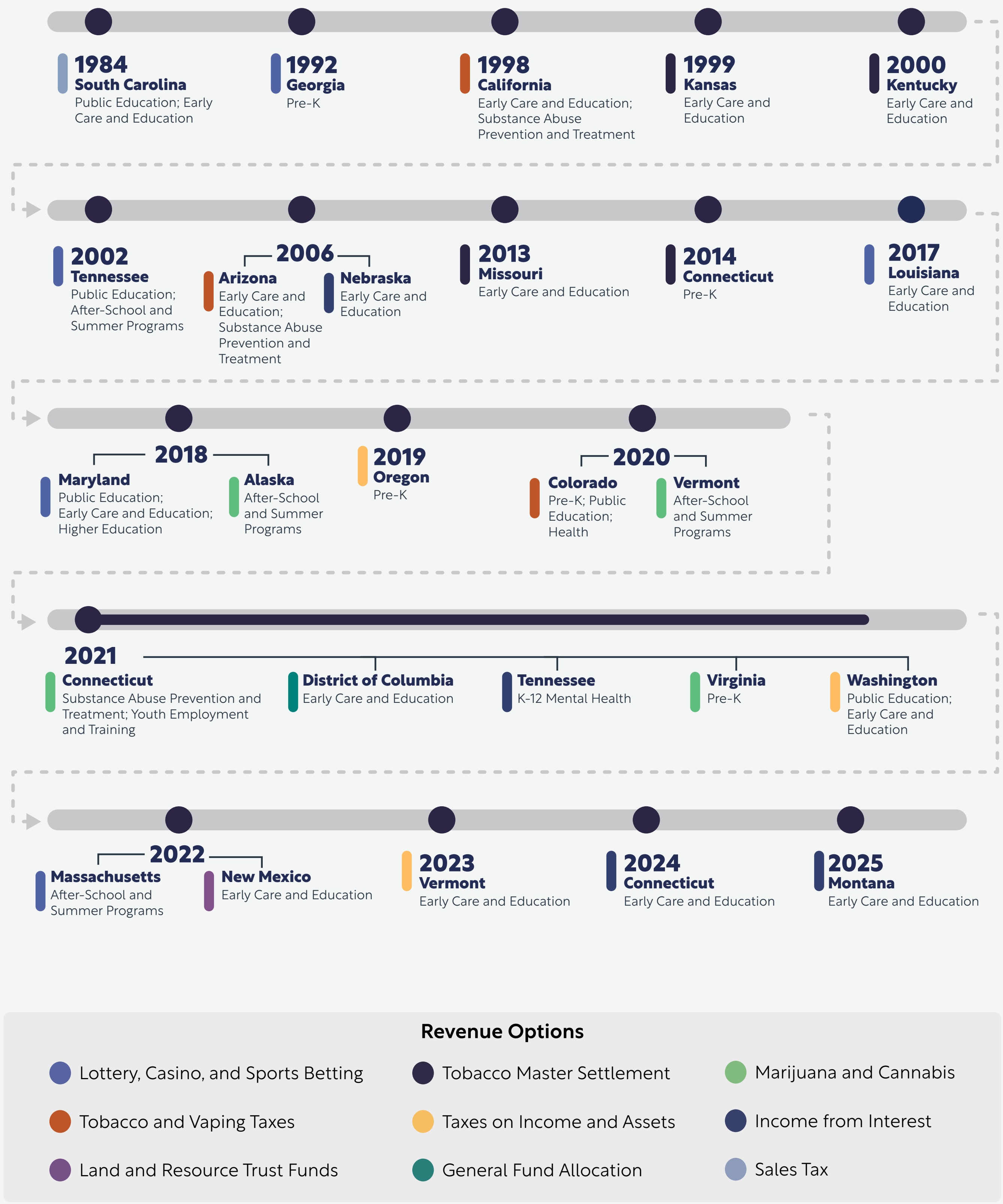
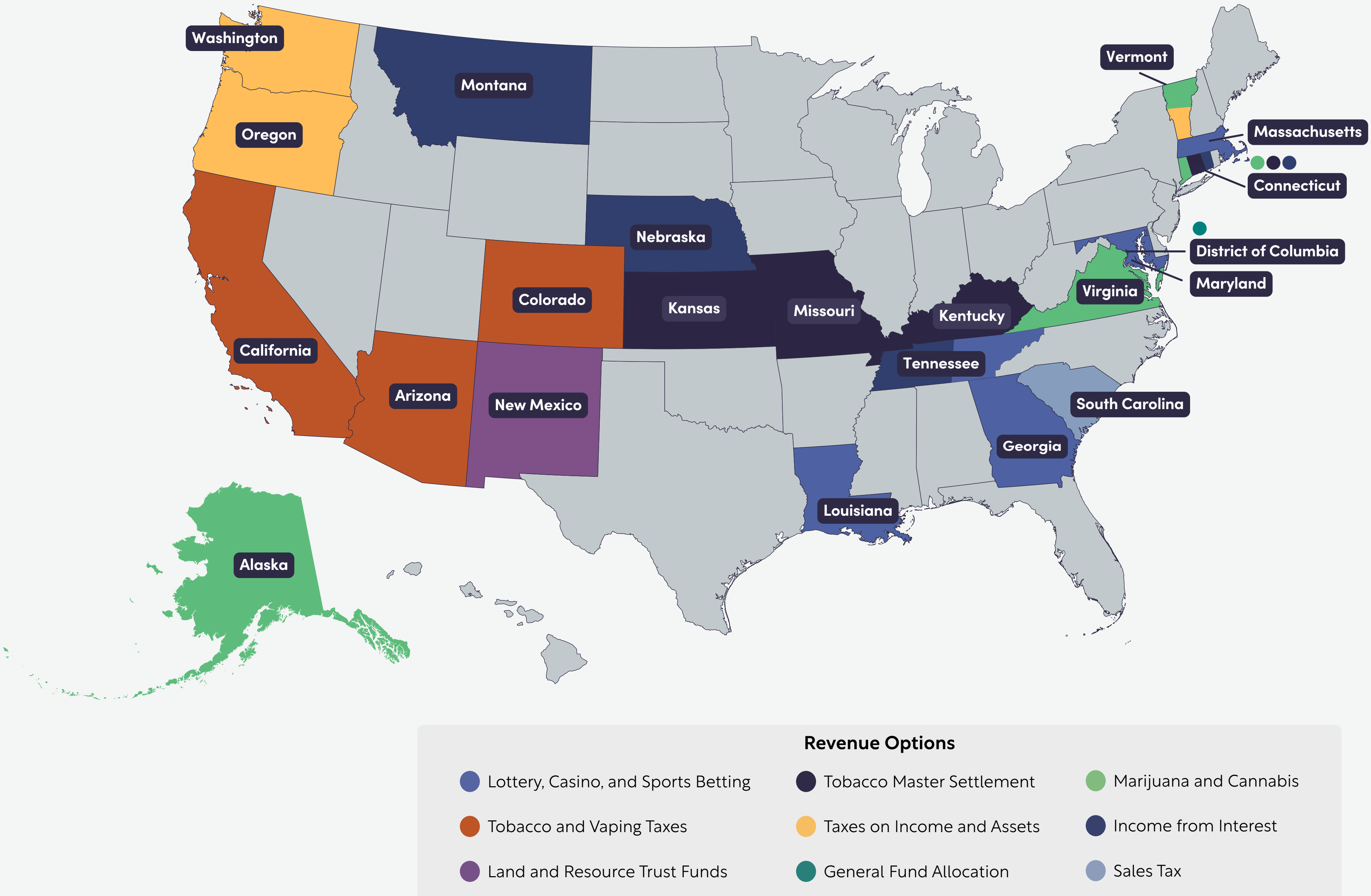


Figure 3: Revenue Options for State Dedicated Funds



Georgia

SUMMARY

- **Funding source:** 35% lottery revenue (or "as near to 35% as is practical")
- **Funding purpose:** Pre-K
- **Annual funding (most recent year available):** $1.5 billion (fiscal year 2024)
- **Method of enactment:** Ballot initiative, Georgia Amendment 1 (1992)
- **Year of enactment:** 1992
- **Fund name:** Lottery for Education Account

FUNDING PURPOSE AND SOURCES

The state lottery has provided billions of dollars for public pre-kindergarten and higher education scholarships in Georgia since its enactment. In 2024, it raised $1.5 billion for kids, with roughly two-thirds going to college scholarships (called the HOPE scholarship) and one-third of the revenue directed to a voluntary, free pre-K program. This system operates in perpetuity with no sunset clause with an intended goal of allocating 35% of lottery revenue to the Lottery for Education Account; however, the language of the legislation gives the legislature some flexibility in meeting this goal, and the share of revenue allocated to the account in the most recent year of data was less than 30%.

ADMINISTRATION AND IMPACT

The Georgia Pre-K Program is administered by the Department of Early Care and Learning. The program uses a mixed-delivery system meaning it provides pre-K services through both public schools and private centers, with grants being distributed to pre-K providers, public or private, on a competitive basis.

The Georgia Pre-K Program began as a pilot program for 750 4-year-old children in 20 centers across the state in 1992. Lottery funding began contributing to the program in 1993, allowing it to explode in size. By 1995, the preschool program became universal, with 44,000 slots available to all 4-year-olds throughout the state on a first-come, first-served basis. During the 2022-2023 school year, it served more than 73,000 children, representing more than half of the state's 4-year-olds. Throughout its history, the program has served more than 2 million children. A 2017 analysis of the program by the Georgia Early Education Alliance for Ready Students found that "students who had attended Georgia's Pre-K significantly outperformed their peers" in all third-grade subject areas.

PATH TO ENACTMENT

In 1992, voters in Georgia approved the creation of a state-run lottery to fund educational programs with the specifics to be defined later through legislation. Creating the state lottery was the central issue of the 1990 gubernatorial election between incumbent Gov. Zell Miller and challenger Johnny Isakson. Both candidates strongly supported the creation of the lottery to fund education through a ballot referendum. The two candidates argued over the specifics of how to spend the lottery revenue, but both emphasized how thousands of Georgia citizens were driving to Florida to participate in their state lottery, taking valuable revenue out of the state of Georgia. Zell Miller won the election and committed to using the lottery funds to supplement, rather than supplant, existing educational programs; the state legislature made good on Miller's promise when it passed SSB25.

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Louisiana

SUMMARY

- **Funding sources:** Shares of various sources, including taxes on sports betting, specialty license plates, CBD products, and casinos
- **Funding purpose:** Early childhood education
- **Annual funding (most recent year available):** $31.5 million (fiscal year 2025)
- **Method of enactment:** Legislative action, Act 343 of 2017, Act 247 of 2019, Act 118 of 2021, Act 435 of 2021
- **Year of enactment:** 2017
- **Fund name:** Louisiana Early Childhood Education Fund

FUNDING PURPOSE AND SOURCES

The Louisiana Early Childhood Education Fund was created in 2017 as a state matching program to incentivize localities to invest in quality early childhood care and education slots for birth to 3-year-olds, particularly through the Child Care Assistance Program. State law initially required localities to put in dollars at a 2:1 ratio and required these dollars not to supplant or replace any other funding sources for child care. The state did not initially dedicate money into the fund when it was created. Still, over time, efforts from advocates and their legislative allies have resulted in multiple dedicated sources of revenue bringing in tens of millions of dollars into early child care annually. These revenue sources do not require renewal and have no specific sunset date. These sources include the following:

- 100% of fantasy sports betting revenue (dedicated in 2021)
- 25% up to $20 million of sports betting revenue (dedicated in 2021)
- Up to $3.6 million from land-based casinos (dedicated in 2021)
- 100% of revenue from hemp-derived CBD products (dedicated in 2019)
- 50% of New Orleans Pelicans specialty license plates (dedicated in 2021)

In fiscal year 2024, 89% of the revenue in the Louisiana Early Childhood Education Fund came from sports betting, 5.5% from hemp-derived CBD products, 4.8% from interest, and less than 1% from license plate sales and fantasy sports betting. The initial match requirement of two dollars in local revenue for every one dollar in state funding has changed to provide a dollar-for-dollar match as more revenue sources have been added to the state fund.

ADMINISTRATION AND IMPACT

The Board of Elementary and Secondary Education administers the Early Childhood Education Fund. Localities must apply and include proof of local matching dollars to create new early childhood slots to receive state matching funds.

The state fund has been successful in incentivizing and supporting local action. At first, localities like Caddo Parish and Jefferson Parish made modest investments to access state funding and braid together private, local, and state sources for smaller projects. In 2022, New Orleans took significant action to take advantage of the opportunity presented by passing a local millage dedicated to early care via ballot measure. Now, many more localities have followed suit. The collective impact of these investments is that thousands more children can access affordable, quality early education with concrete plans to expand the number of children, families, and programs served.

Prior to the creation of the fund, nearly two-thirds of the 173,000 children ages 0 to 3 who qualified for public programs lacked access to high-quality programs, especially infants and toddlers. In fiscal year 2024–2025, 13 parishes qualified for matching funds, representing an increased enrollment of more than 2,000 children. As demand picks up across the state and new localities begin to access the state funds, advocates are looking for new and expanded sources of state revenue to ensure the revenue matches local needs.

PATH TO ENACTMENT

Early child educators and advocates won a significant victory in 2017 when the Louisiana state legislature passed legislation creating the Louisiana Early Childhood Education Fund, initially without any funding. Spearheading this campaign was the Ready for Louisiana Coalition formed in partnership by the Louisiana Policy Institute for Children, the Jefferson Chamber of Commerce, and the United Way of Southeast Louisiana. They cultivated legislative supporters from across the aisle, including the powerful speaker pro tempore, presiding officer over the Louisiana House of Representatives who sets

Louisiana

the legislature's overall legislative agenda. Today this coalition includes more than 170 members from across the state, representing businesses, nonprofits, child care providers, and more.

In 2018, the legislature established the bipartisan Early Childhood Care and Education Commission to continue to address the growing child care crisis. Comprised of members from the legislature, executive branch, and public agencies like the Department of Health, the commission was tasked with studying the barriers to access and identifying bold, sustainable solutions. The commission is tasked with assessing the needs of children from birth through age 3 and publishing annual reports with policy and fiscal recommendations for the fund and early child care policy in general. Using recommendations from this committee, the coalition successfully secured additional funding streams, first in 2019 and then several more in 2021.

Photo credit: Louisiana Policy Institute for Children

Sources:

House Fiscal Division of the Louisiana House of Representatives, *Fiscal Year 2025 Executive Budget Review: Department of Education*, (Baton Rouge: Louisiana House Committee on Appropriations, 2024), https://house.louisiana.gov/housefiscal/DOCS_APP_BDGT_MEETINGS/DOCS_AppBudgetMeetings2024/FY25%20Department%20of%20Education.pdf.

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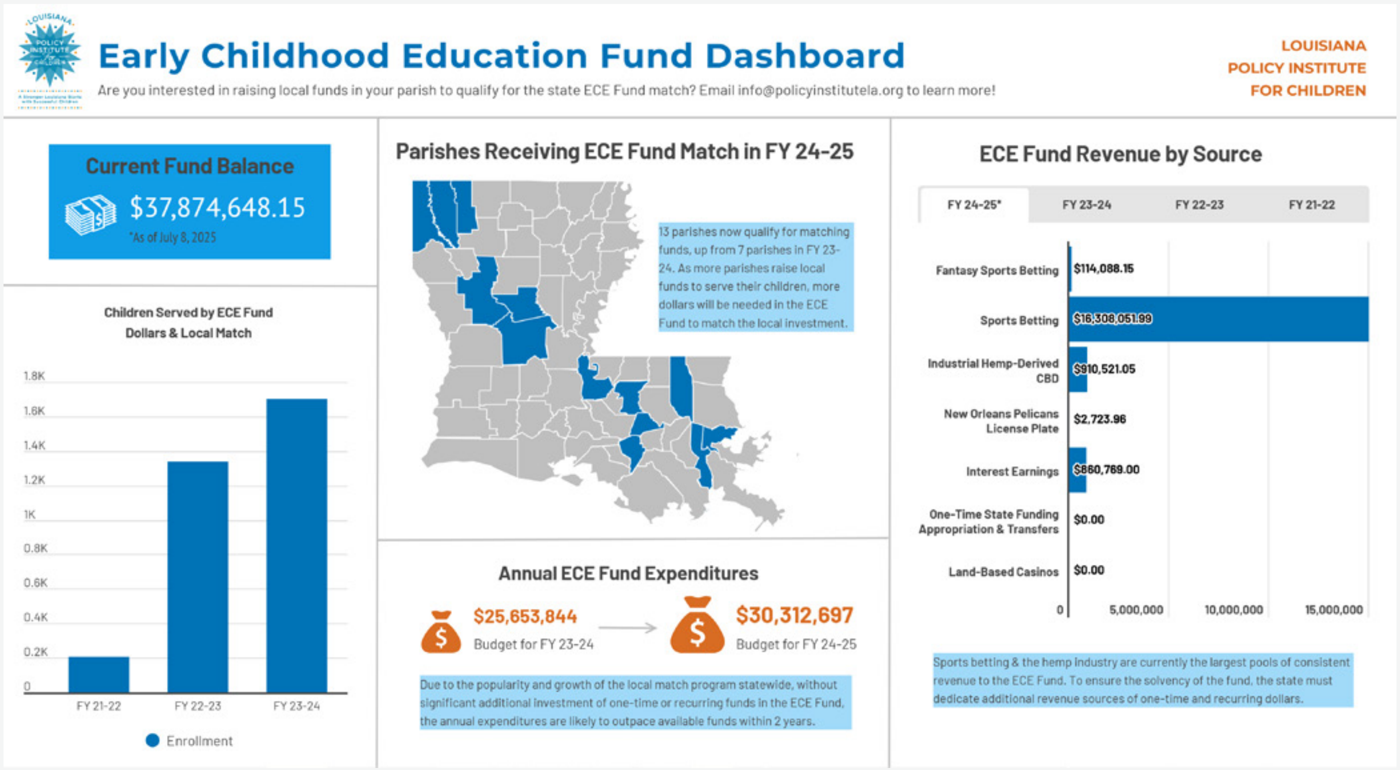
Figure 4: Louisiana Early Childhood Education Fund



Source: Louisiana Policy Institute for Children, "Early Care & Education Funding," accessed August 2025, https://policyinstitutela.org/early-care-education-funding/.

Maryland

SUMMARY

- **Funding sources:** Casino gambling revenue, sports betting revenue, digital advertising tax, sales and use tax
- **Funding purposes:** Public education, early childhood education, higher education, career and technical education, school construction
- **Annual funding (most recent year available):** Education Trust Fund: $601 million; Blueprint for Maryland's Future Fund: $2.38 billion (fiscal year 2024)
- **Methods of enactment:** Ballot initiative, Maryland Question 2 of 2008, Maryland Question 1 of 2018; Legislation, SB 3 (Chapter 4) of the 2007 special session, HB 1415 (Chapter 361) of 2018 regular session, HB 1300 (Chapter 32) of 2021
- **Years of enactment:** 2018, 2020
- **Fund name:** Education Trust Fund, Blueprint for Maryland's Future Fund

FUNDING PURPOSE AND SOURCES

In 2018, Maryland voters approved the creation of the Education Trust Fund to ensure that gambling tax revenue earmarked for transfer to public education—including not just K-12 but also early learning and higher education—would not supplant general fund expenditures that would have otherwise gone to public education in Maryland. The Education Trust Fund revenue represents a significant portion of the state funding for the Blueprint for Maryland's Future, the state's ambitious, multipronged and multiyear investment in education that was passed into law in 2018. In fiscal year 2024, casino and sports wagering revenue generated more than $566 million for the Education Trust Fund.

Other revenue sources for the Blueprint for Maryland's Future Fund include a portion of sales tax revenue, a portion of sports wagering revenue, a tax on digital advertising (currently the subject of litigation), and periodic transfers from other state funds. Revenue for the Blueprint for Maryland's Future Fund totaled $2.3 billion in fiscal year 2024, including $475 million from the Education Trust Fund, a $900 million transfer from the state reserve fund, and $877 million from all other sources. Although current revenue collected from the digital advertising tax has not yet been made public, estimates initially showed that this tax was expected to raise $250 million annually, and in 2024 the tax brought in $90 million.

ADMINISTRATION AND IMPACT

Revenue from the Education Trust Fund and Blueprint for the Future Fund supports free full-day pre-K for 3- and 4-year-olds from families who earn less than 300% of the federal poverty level; it also provides expanded child care assistance to families that earn up to 75% of the state median income. The Prekindergarten Expansion Grant is a competitive grant program for providers administered by the Maryland State Department of Education, while the Child Care Scholarship Program is administered by the Division of Early Care.

The Blueprint for Maryland's Future Fund (including revenue from the Education Trust Fund) supported at least $162 million in early childhood education in fiscal year 2024, expected to increase to at least $252 million in fiscal year 2026, in addition to K-12 and other education programming.

PATH TO ENACTMENT

In 2007, the Maryland General Assembly established the Education Trust Fund as a vehicle to fund education with casino gambling revenue. Voters approved a ballot measure in 2008 to authorize casino gambling with the bulk of the revenue going to the Education Trust Fund. The state established the Commission on Innovation and Excellence in Education in 2016, in accordance with law requiring a review of the state's education funding system. In 2018, Maryland voters overwhelmingly supported a measure called Question 1 with 90% of those voting on it approving the change to make sure that gambling tax revenue would be invested to benefit public education, including not just K-12 but also early learning and higher education. Although gambling revenue was already meant to fund education, many people were concerned it was just replacing other state funding for schools. The new law, often called the "lockbox" amendment, was created to ensure the gambling tax revenue truly added to education funding. Among others, then Gov. Larry Hogan supported the amendment.

Lawmakers established the Commission on Innovation and Excellence in Education Fund (later renamed the Blueprint for Maryland's Future Fund) in 2018 to support implementation of the commission's recommendations. Gov. Hogan signed this legislation. Lawmakers passed legislation to implement the Blueprint for Maryland's Future school funding reforms in 2020. Gov. Hogan vetoed the bill, and lawmakers overrode the veto in 2021.

Sources:

Maryland Department of Legislative Services, *Issue Papers 2024 Legislative Session*, (Annapolis: Maryland Department of Legislative Services, 2023), https://dls.maryland.gov/pubs/prod/RecurRpt/Issue-Papers-2024-Legislative-Session.pdf.

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Massachusetts

SUMMARY

- **Funding source:** 1% of the total revenue from sports wagering
- **Funding purpose:** To support after-school and out-of-school time activities and provide matching grants to elementary and secondary youth sports organizations, clubs, and other programs
- **Annual funding (most recent year available):** $1.4 million (fiscal year 2025)
- **Method of enactment:** Legislative action, Bill H.5164 of 2022
- **Year of enactment:** 2022
- **Fund name:** Youth Development and Achievement Fund

FUNDING PURPOSE AND SOURCES

When Massachusetts legalized sports wagering and levied a new tax on these activities in 2022, it simultaneously created the Youth Development and Achievement Fund and dedicated 1% of the revenue generated from sports betting to this fund.

These funds are intended to support youth development programs. The fiscal year 2024–2025 Massachusetts state budget allocates nearly $9 million to after-school and out-of-school time programs, with the Youth Development and Achievement Fund contributing 14% of the overall total. This money is codified into law and does not require renewal.

ADMINISTRATION AND IMPACT

The 1% of sports betting revenue that is dedicated to the Youth Development and Achievement Fund supports after-school and out-of-school time programs administered by the Department of Elementary and Secondary Education.

PATH TO ENACTMENT

Massachusetts legalized sports wagering in 2022 with H.5164, "An Act Regulating Sports Wagering" (Chapter 173 of the Acts of 2022). The legislation allocated the revenue from sports wagering as follows: 45% to the General Fund; 27.5% to the Gaming Local Aid Fund; 17.5% to the Workforce Investment Trust Fund; 9% to the Public Health Trust Fund; and 1% to the Youth Development and Achievement Fund.

Sources:

Massachusetts Gaming Commission, *Year One at a Glance: A Quick Look at Sports Wagering in the Commonwealth*, 2023, https://massgaming.com/wp-content/uploads/MA-Sports-Wagering-Year-One-at-a-Glance.pdf.

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Tennessee

SUMMARY

- **Funding source:** Lottery revenue
- **Funding purpose:** Public education, after-school programs, and early learning
- **Annual funding (most recent year available):** $18 million (fiscal year 2024)
- **Method of enactment:** Ballot initiative, Amendment 1 of 2002
- **Year of enactment:** 2002
- **Fund name:** Lottery for Education Proceeds, After-School Program Proceeds

FUNDING PURPOSE AND SOURCES

Revenue from the state's lottery contributes to substantial education funding in the state, with a portion of these proceeds funding after-school programs for youth ages 5–18 enrolled in elementary or secondary school. In fiscal year 2024, lottery proceeds provided $500 million for education programs, with $18 million of that dedicated to after-school programs. This revenue is codified into law in perpetuity and not subject to any sunset provisions or renewal requirements.

ADMINISTRATION AND IMPACT

Funding for the Lottery for Education: Afterschool Programs is administered by the Department of Education. There is a competitive grant process for both nonprofit and for-profit providers to receive funding, with certain requirements for program participants, such as at least half of the subsidies must go to children who meet certain eligibility criteria, like those who qualify for free or reduced-price school meals or who otherwise face educational disadvantages.

PATH TO ENACTMENT

In 2002, Tennessee voters approved Amendment 1 which created a state lottery and dedicated the revenue raised toward education, including a portion for after-school and early learning programs.

Sources:

Tennessee Education Lottery Corporation, *Estimation of Total and Net Lottery Proceeds for Fiscal Years Ending June 30, 2024, 2025, 2026, 2027, and 2028* (Nashville: Tennessee Education Lottery Corporation, 2023), https://www.tn.gov/content/dam/tn/finance/documents/budget_handouts/Education_Lottery_Estimates.pdf.

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Alaska

Note: Different states sometimes refer to the same tax by different names; for example, some states use "marijuana" while others refer to it as "cannabis." We attempt to use the language consistent with that state's laws in each state profile.

SUMMARY

- **Funding source:** Share of marijuana excise tax
- **Funding purpose:** After-school, summer, and other out-of-school time programs
- **Annual funding (most recent year available):** $2 million (fiscal year 2024)
- **Method of enactment:** Legislative action, SB104 of 2018
- **Year of enactment:** 2018
- **Fund name:** Marijuana Education and Treatment Fund

FUNDING PURPOSE AND SOURCES

The Marijuana Education and Treatment Fund receives 25% of the revenue collected from the state's marijuana excise tax. Then 25% of the revenue in that fund is allocated to after-school and out-of-school time programs.

After experiencing rapid growth in revenue within the first few years of its enactment, revenue for the fund has been flat for years, which is not surprising given the trend of declining revenue collections from excise taxes over time. This revenue source is perpetual and not subject to any sunset provisions.

ADMINISTRATION AND IMPACT

Twenty-five percent of revenue collected from a tax on the sale or transfer of marijuana is transferred to the Marijuana Education and Treatment Fund. The Department of Public Health administers the competitive grant program for after-school youth services. Only nonprofit entities that serve children ages 6 through 18 are eligible, among other requirements. Based on data from the most recent annual report, seven organizations received grants to support after-school programs and opportunities for children and youth.

PATH TO ENACTMENT

In 2018, the Alaska State Legislature passed SB104 which created the Marijuana Education and Treatment Fund from existing marijuana taxes. The Alaska Afterschool Network and other allies successfully advocated for a share of marijuana revenue to go toward prevention efforts, with after-school and summer programs becoming an allowable funding use since out-of-school time activities act as a protective factor for youth well-being.

Sources:

Alaska Legislative *Finance Division, Fund Source Report: Marijuana Education and Trust Fund,* accessed July 2025, https://www.legfin.akleg.gov/ReportsPHP/SelectReport.php?&ReportAbbrev=FUNDSOURCE&LimitFundCodes=1254.

Alaska Statutes 17.37.010, 2025, https://www.akleg.gov/basis/statutes.asp#17.37.010.

Task Force on Recreational Marijuana, *Marijuana Excise Tax Funding Impacts SY2023,* (Anchorage: Alaska Department of Commerce, Community, and Economic Development, 2023), https://www.commerce.alaska.gov/web/Portals/9/pub/MCB/MJTaskForce/Marijuana%20Excise%20Tax%20Funding%20Impacts%20SY23%20Final.pdf.

Afterschool Alliance, *Advancing Afterschool and Summer Opportunities Using Cannabis Tax Revenue,* (Washington, DC: Afterschool Alliance, 2022), https://afterschoolalliance.org/documents/AdvancingAfterschoolSummerOpportunities_CannabisRevenue.pdf.

Connecticut

Note: Different states sometimes refer to the same tax by different names; for example, some states use "marijuana" while others refer to it as "cannabis." We attempt to use the language consistent with that state's laws in each state profile.

SUMMARY

- **Funding source:** 60%-75% of revenue from marijuana excise tax
- Funding purposes: Investments in communities most impacted by the "war on drugs," including youth employment and training services and other services for youth in impacted communities
- **Annual funding (most recent year available):** $5.8 million (fiscal year 2024)
- **Method of enactment:** Legislative action, SB1201 (Special Session Public Act 21–1)
- **Year of enactment:** 2021
- **Fund name:** Social Equity and Innovation Fund

FUNDING PURPOSE AND SOURCES

Connecticut's Social Equity and Innovation Fund was created alongside the legalization and taxation of recreational marijuana in the state in 2021. The purpose of the fund is to promote equitable access to the marijuana industry for individuals from underrepresented communities and support economic reinvestment in those communities disproportionately impacted by drug-related convictions or high unemployment rates. These community reinvestments include youth employment and training services and other services for youth in impacted communities, defined as those with either (1) a historical conviction rate for drug-related offenses greater than one-tenth or (2) an unemployment rate greater than 10%. In its first year, the fund's community investments included approximately $6 million in grants for youth development in impacted communities. This revenue source exists in perpetuity with no sunset clause.

ADMINISTRATION AND IMPACT

The Social Equity and Innovation Fund is one of three state funds that receives ongoing revenue from Connecticut's marijuana excise tax. Of the total revenue raised from the marijuana excise tax, 25% goes to a fund for addiction prevention and recovery services; between 0% and 15% of the revenue is deposited into the state general fund in decreasing amounts until it phases down to 0% in 2028; and the remaining 60% to 75% of the marijuana excise tax revenue (depending on the year) gets invested in the Social Equity and Innovation Fund, a fund that was specifically created along with legalization of marijuana and the creation of the marijuana excise tax.

The Social Equity and Innovation Fund is managed by the Social Equity Council, which is composed of legislative and gubernatorial appointees as well as members of state agencies. For their initial pilot program, members of the Social Equity Council developed an investment plan and selected communities to receive funding based on metrics like rates of drug conviction and poverty rate. In future years the process will be open to all communities across the state through a competitive process.

PATH TO ENACTMENT

Connecticut legalized recreational marijuana through legislation known as SB1201 (also known as Special Session Public Act 21–1). This legislation laid out a comprehensive plan for the regulation of marijuana, including the enactment of the marijuana excise tax and the establishment of the Social Equity and Innovation Fund and its governing entity, the Social Equity Council. The legislation was passed by the Connecticut General Assembly and signed into law by Gov. Ned Lamont on June 22, 2021.

Sources:

Connecticut State Legislature, June 2021 Special Session, Public Act 21–1, https://www.cga.ct.gov/2021/ACT/PA/PDF/2021PA-00001-R00SB-01201SS1-PA.PDF.

Brittany Schaefer, "Connecticut's Marijuana Tax Revenue Drives Social Equity Initiatives," WTNH, March 5, 2025, https://www.wtnh.com/news/connecticut/new-haven/connecticuts-marijuana-tax-revenue-drives-social-equity-initiatives/.

Vermont

Note: Different states sometimes refer to the same tax by different names; for example, some states use "marijuana" while others refer to it as "cannabis." We attempt to use the language consistent with that state's laws in each state profile.

SUMMARY

- **Funding source:** All revenue from the combined sales taxes on marijuana
- **Funding purpose:** After-school and out-of-school time programs
- **Annual funding (most recent year available):** $3.7 million (fiscal year 2024)
- Methods of enactment: Legislation, Act 78 of 2023, Act 48 (H.480) of 2015, Act 164 (S.54) of 2020
- Years of enactment: 2015, 2020, 2023, 2024
- **Fund name:** Vermont Afterschool and Summer Learning Special Fund

FUNDING PURPOSE AND SOURCES

In 2020, Vermont legalized recreational marijuana sales and established a 14% marijuana excise tax. In addition to the excise tax, marijuana sales are also subject to the state's 6% tax on the retail sale of tangible personal property. Five years prior, in 2015, lawmakers established the Expanded Learning Opportunities Special Fund with the intention to support new or expanded after-school programs, particularly in underserved areas of the state. In 2023, Vermont legislators fulfilled this purpose by creating the Afterschool and Summer Special Learning Fund in 2023, which receives the revenue generated from the combined sales taxes on marijuana established in 2020.

ADMINISTRATION AND IMPACT

The Afterschool and Summer Learning Special Fund supports a competitive grant program for new or expanded after-school and summer learning programs and is overseen by the Agency of Education. In fiscal year 2024, $3.7 million in grants were awarded to 16 unique entities and are expected to support after-school programming for more than 4,000 students.

PATH TO ENACTMENT

Vermont legalized the use and sale of cannabis for adults in 2020. In 2023, legislators used the opportunity presented by the additional revenue to fund programming for after-school and summer programs, a goal that had been established many years before.

Sources:

Vermont Agency of Education Data Management and Analysis Division and Student Pathways Division, *Legislative Report: Act 78 of 2023 Afterschool Grant* (Montpelier: Vermont Agency of Education, 2024), https://legislature.vermont.gov/assets/Legislative-Reports/edu-legislative-report-act-78-afterschool-2025.pdf.

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Vermont State Legislature, 2020 Regular Session, Act 164 of 2020, https://legislature.vermont.gov/Documents/2020/Docs/ACTS/ACT164/ACT164%20As%20Enacted.pdf.

Vermont State Legislature, 2023 Regular Session, Act 78 of 2023, https://legislature.vermont.gov/Documents/2024/Docs/ACTS/ACT078/ACT078%20As%20Enacted.pdf.

Virginia

Note: Different states sometimes refer to the same tax by different names; for example, some states use "marijuana" while others refer to it as "cannabis." We attempt to use the language consistent with that state's laws in each state profile.

SUMMARY

- **Funding source:** 40% of marijuana excise tax revenue
- **Funding purpose:** Pre-K and substance abuse treatment and prevention for "at-risk youth"
- **Annual funding (most recent year available):** Not yet collected
- Methods of enactment: Legislation, HB 2312 and SB 1406
- **Year of enactment:** 2021
- **Fund name:** N/A

FUNDING PURPOSE AND SOURCES

A share of the revenue from the retail sale of marijuana products in Virginia is allocated to pre-K for "at-risk" 3- and 4-year-olds (as defined by state legislation). This revenue source is codified into law and not subject to a sunset provision. No funding is currently available yet since the retail sale of recreational marijuana products has not yet been legalized in Virginia due to disagreement between the legislative and executive branches of the state government.

ADMINISTRATION AND IMPACT

If the retail sale of recreational marijuana products becomes legal, 40% of the revenue generated from the excise tax is to be allocated to pre-K services. The Virginia Department of Education is directed to convene a work group of early childhood care and education advocates and appropriate subject matter experts to develop recommendations for the use of marijuana tax revenue to fulfill its purpose. However, as the revenue is not yet being collected, the work group has not yet convened.

PATH TO ENACTMENT

Virginia's legislature passed legislation legalizing recreational marijuana use for adults 21 and older in February 2021. This legislation also included provisions allocating revenue from marijuana sales taxes to various funds and programs, including 40% of that revenue to pre-K services; 30% for the Cannabis Equity Reinvestment Trust Fund; 25% for substance abuse treatment and prevention; and 5% for public health programs. However, the governor vetoed the legislation allowing retail sales of marijuana in Virginia, meaning no revenue has been generated or collected at this time.

Sources:

Annabelle Kinney, "Gov. Youngkin Vetoes Retail Sale of Recreational Marijuana Bill, Faces Opposition," WDBJ, March 29, 2024, https://www.wdbj7.com/2024/03/29/gov-youngkins-veto-bill-recreational-marijuana-sales-faces-opposition/.

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Marijuana Policy Project, "Virginia Cannabis Regulation Law Summary," accessed July 2025, https://www.mpp.org/states/virginia/hb-2312/sb-1406-virginia-cannabis-regulation-bill-summary/.

Connecticut

SUMMARY

- **Funding source:** Share of annual Tobacco Master Settlement revenue
- **Funding purpose:** Pre-K
- **Annual funding (most recent year available):** $4.5 million (fiscal year 2024)
- **Method of enactment:** Legislative action, Public Act 14-41 of 2015
- **Year of enactment:** 2014
- **Fund name:** Smart Start Competitive Grant Program

FUNDING PURPOSE AND SOURCES

Smart Start is a competitive grant program through which the state of Connecticut helps subsidize the creation or expansion of preschool programs in public schools. The Smart Start grant account is authorized to use $10 million per year in federal tobacco settlement fund dollars and revenue from the sale of bonds or earned interest on bonds through fiscal year 2025.

Tobacco Master Settlement dollars require annual appropriations of the funds for approved purposes, though these dollars will be available for as long as tobacco products are sold in the state. The most recently proposed gubernatorial budget keeps this revenue for Smart Start in place through fiscal year 2028, showing how durable support has been for expanded pre-K access.

ADMINISTRATION AND IMPACT

The Smart Start grant program is administered by the Connecticut Office of Early Childhood. Funding is tied to the student population served. For the first 10 years of the program, funding was limited to $75,000 per classroom. In 2024, the Connecticut legislature raised this cap to $105,000, allowing localities to receive more grant funding beginning in 2025. Grants are awarded competitively and prioritize districts with little existing access to pre-K or higher rates of poverty.

As of 2024, nearly 1 in 5 school districts in Connecticut had received these dedicated funds for pre-K programs.

PATH TO ENACTMENT

In 2014, the Connecticut legislature passed SSB25 on a unanimous vote, establishing the Connecticut Smart Start program for expanded pre-K access. The legislation was championed by then Gov. Dannell Malloy, who campaigned on expanding access to early care and pre-K, and who budgeted the master settlement agreement funds to fulfill the Smart Start obligations.

Sources:

Connecticut State Legislature, 2015 Regular Session, Public Act 14-41 of 2015, https://www.cga.ct.gov/2014/act/pa/2014PA-00041-R00SB-00025-PA.htm.

State of Connecticut, Office of Policy and Management, *Governor Lamont's FY 2025 Budget Three Year Budget Report FY 2026, FY 2027, and FY 2028*, February 7, 2024, https://portal.ct.gov/-/media/opm/budget/2025_midterm/outyear-report-final.pdf.

Connecticut Office of Early Childhood, "Smart Start," accessed July 2025, https://www.ctoec.org/smart-start/.

Connecticut Office of Early Childhood, "Smart Start Provider Resources," accessed July 2025, https://www.ctoec.org/smart-start/communities-receiving-smart-start-funds/.

Kansas

SUMMARY

- **Funding source:** Share of annual Tobacco Master Settlement revenue
- **Funding purpose:** Early learning and child care
- **Annual funding (most recent year available):** $50 million (fiscal year 2024)
- **Method of enactment:** Legislative action, HB2558 of 1999
- **Year of enactment:** 1999
- **Fund name:** Kansas Endowment for Youth

FUNDING PURPOSE AND SOURCES

In 2024, $50 million in Tobacco Master Settlement revenue was invested in children's programs in Kansas via the Kansas Endowment for Youth fund. This revenue is then allocated to the Children's Initiative Fund which then funds services and programs. This revenue is not subject to a sunset provision, though the exact amount can vary from year to year. The range of programs supported is broad including child care assistance, home visiting for newborns, parental education, and even subsidies for Dolly Parton's Imagination Library, an international book gifting program for children ages 0 to 5.

ADMINISTRATION AND IMPACT

These funds are governed by a children's cabinet comprised of 15 members, representing legislative and executive appointees as well as representatives from various state agencies and the court system. These members are appointed by the governor or specifically enumerated within the law that created the board.

The largest share of funding for the Kansas Endowment for Youth goes to the Early Childhood Block Grant, which in fiscal year 2024 provided grants to 19 grantees across the state to provide services to children ages 0 to 5 who are vulnerable to experiencing developmental delays.

PATH TO ENACTMENT

The Kansas Endowment for Youth fund was established via legislation in 1999 in response to the opportunity presented by the Tobacco Master Settlement Agreement in the preceding year. This made Kansas one of the first states to utilize tobacco settlement funds to help subsidize early care and education. Since money from the Kansas Endowment for Youth fund was established to be a sustainable source of revenue, the establishing legislation specified an annual increase in funding, creating a mechanism and an incentive for the legislature to increase program funding for youth over time.

Advocates have concerns about ongoing funding for the Kansas Endowment for Youth. Dollars from the fund have been drawn on to help offset shortfalls in the general state budget during challenging fiscal years but are mostly allocated to the Children's Initiative Fund. Because tobacco settlement dollars are based on tobacco sales—and tobacco-related revenue has fallen—advocates have called for diversified funding streams to ensure the sustainability of the fund far into the future.

Sources:

Kansas Division of the Budget, *Comparison Report The FY 2025 Governor's Budget Report with Legislative Authorizations* (Topeka: Kansas Division of the Budget, 2025), https://budget.kansas.gov/wp-content/uploads/FY2025_Comparison_Report-07.03.2024.pdf.

Kansas State Legislature, "Kansas Endowment for Youth (KEY) Fund Summary," https://kslegislature.gov/li_2024/b2023_24/committees/ctte_s_wam_1/documents/testimony/20230424_17.pdf.

Dolly Parton's Imagination Library, "About Us," accessed July 2025, https://imaginationlibrary.com/about-us/.

Kansas Children's Cabinet and Trust Fund, "EC Recommendations Panel," accessed July 2025, https://kschildrenscabinet.gov/early-childhood-recommendations-panel/.

Kentucky

SUMMARY

- **Funding source:** 25% of annual Tobacco Master Settlement revenue
- **Funding purpose:** Early childhood development
- **Annual funding (most recent year available):** $26 million (fiscal year 2024)
- **Method of enactment:** Legislative action, HB706
- **Year of enactment:** 2000
- **Fund name:** Early Childhood Development Fund

FUNDING PURPOSE AND SOURCES

The Kentucky Early Childhood Development Fund aims to enhance early childhood education, support families, and promote healthy development for Kentucky's young children.

Supported initiatives include (1) a home visiting program for first-time parents with certain risk factors; (2) an early intervention system serving children from birth to age 3 with developmental delays or medical conditions known to cause delays; (3) child care quality improvement efforts across the state; and (4) Regional Collaboratives that meet locally identified needs for improving the lives of children and their families. These collaboratives have supported a broad array of initiatives such as promoting early learning and literacy, subsidizing child care and pre-K, and other areas of need for children from the prenatal stage to age 5 and their families.

These initiatives are funded by 25% of the annual funding that Kentucky receives from the Tobacco Master Settlement. In fiscal year 2024, the Early Childhood Development Fund received $26 million in tobacco settlement dollars, an amount several million dollars lower than in recent years. These funds exist in perpetuity and are not subject to annual renewal; but as tobacco use decreases, master settlement payouts will decrease, creating a need for the state legislature to supplement the fund to maintain service levels.

ADMINISTRATION AND IMPACT

The fund is administered by the Early Childhood Advisory Council, which runs a grant program that allocates funds to Regional Collaboratives, a network of local partnerships led by the Governor's Office of Early Childhood.

In 2024, the most recent year of available data, Regional Collaborative partnerships helped enroll more than 50,000 children in Kentucky early care programs, with nearly half of those being in high-quality settings as defined by Kentucky's quality rating and improvement system.

PATH TO ENACTMENT

Kentucky's Early Childhood Development Fund was established after years of savvy campaigning spearheaded by then Gov. Paul Patton, effective legislative engagement, and a strong bipartisan coalition. As the Tobacco Master Settlement rolled out in 1998, Gov. Patton created the Governor's Office of Early Childhood Development that same year to capitalize on the opportunity presented by the settlement. The governor used this office to convene a task force in 1999 to make legislative recommendations, which would eventually be passed with unanimous consent by Kentucky legislators as HB706 in 2000. This legislation was a large early childhood development package that included the creation of an Early Childhood Development Fund and dedication of 25% of the annual tobacco settlement revenue to the fund. The goals underlying the fund's inception helped to build a broad, bipartisan constituency that includes business, labor, care providers, and parents that has created a durable program that continues today, adapting and expanding over time to meet changing needs and incorporate new strategies for improving early childhood outcomes in Kentucky.

Sources:

Kentucky State Legislature, 2000 Regular Session, House Bill 706, https://apps.legislature.ky.gov/record/00rs/HB706.htm.

Governor's Office of Early Childhood, "Kentucky Regional Collaborative Network," accessed July 2025, https://kyecac.ky.gov/community/Pages/Regional-Collaboratives.aspx.

Kentucky Center for Statistics, "Early Childhood Profile," accessed July 2025, https://kystats.ky.gov/Latest/ECP.

Kentucky Chamber, *A Citizen's Guide to Kentucky Education: Reform, Progress, Continuing Challenges* (Frankfort: Kentucky Chamber and Pritchard Committee for Academic Excellence, 2016), https://www.kychamber.com/sites/default/files/pdfs/A%20Citizen%27s%20Guide%20to%20Kentucky%20Education.pdf.

Kentucky Revised Statutes 200.151, accessed July 2025, Justia Law, 2021, https://law.justia.com/codes/kentucky/2021/chapter-200/section-200-151/.

Missouri

SUMMARY

- **Funding source:** Share of annual Tobacco Master Settlement revenue
- **Funding purpose:** Early care and education
- **Annual funding (most recent year available):** $35 million (fiscal year 2024)
- **Method of enactment:** Legislative action, HB1731 of 2012
- **Year of enactment:** 2013
- **Fund name:** Early Childhood Development, Education and Care Fund

FUNDING PURPOSE AND SOURCES

At least $35 million of Missouri's funds from the Tobacco Master Settlement Agreement are allocated to assist child care providers with start-up or ongoing costs associated with implementing sliding scale fees to improve affordability for families. Other portions of the tobacco settlement revenue are dedicated to child care subsidies for families earning less than 150% of the federal poverty level. This revenue stream exists in perpetuity as long as tobacco products are sold in Missouri.

ADMINISTRATION AND IMPACT

In the most recent fiscal year, the Early Childhood Development, Education and Care Fund provided a total of $35 million in funding that supported a range of services from special education and general development to quality improvement efforts and direct financial assistance for child care. These funds go to the Missouri Department of Elementary and Secondary Education to support early care programs through competitive grants and contracts. Several key areas include the following:

- $21.5 million, or about 63.1%, is allocated to the Early Childhood Special Education Program;
- $5 million, or about 14.7%, supports general early childhood development programs, with direction to coordinate parent education services and home visiting programs;
- $295,399, or about 0.9%, goes to before-school programs;
- $7.3 million, or about 21.4%, is dedicated to child care subsidy payments for low-income families based on specified poverty level thresholds, and for children under the care or custody of the Department of Social Services—Children's Division.

PATH TO ENACTMENT

In 2012, during the recovery from the Great Recession, the Missouri legislature reached a grand budget compromise. Veterans' services and early childhood had long been pitted against each other to compete for revenue brought in from in-state casinos. A bill to ensure both programs received adequate funding was sponsored by Rep. David Day, a Republican, and passed with bipartisan support. The result was Missouri law HB1731, which created the Early Childhood Development, Education and Care Fund and ensured funding for it through allocations of the Tobacco Master Settlement Agreement funds in perpetuity.

Sources:

Missouri Office of Administration, *The Missouri Budget Fiscal Year 2023* (Jefferson City: Missouri Office of Administration, 2024), https://oa.mo.gov/sites/default/files/Fiscal_Year_2023_Executive_Budget%20.pdf.

Missouri Statute 161.215, August 28, 2018, https://revisor.mo.gov/main/OneSection.aspx?section=161.215.

Missouri Department of Elementary and Secondary Education, "Truly Agreed to and Finally Passed House Bill 2," accessed July 2025, https://dese.mo.gov/media/pdf/truly-agreed-and-finally-passed-house-bill-2.

Arizona

SUMMARY

- **Funding source:** Tobacco excise tax increase
- **Funding purpose:** Early learning and preventive health programs
- **Annual funding (most recent year available):** $100 million (fiscal year 2025)
- **Method of enactment:** Ballot initiative, Proposition 203 of 2006
- **Year of enactment:** 2006
- **Fund name:** First Things First (also known as the Early Childhood Development and Health Board)

FUNDING PURPOSE AND SOURCES

First Things First uses funding from the tobacco excise tax to make investments in programs and services to support quality child care and preschool, strengthening families, preventive health, workforce development and training, research and evaluation, family and community engagement, and system coordination. Local regional councils recommend strategies to meet the needs in their communities. About 81% of funding goes to fund programs and services in local communities.

Proposition 203 initially generated $165 million annually but this revenue has fallen over time as tobacco usage has declined. In fiscal year 2025, the tax raised only about $90 million. An additional 10% of funding comes from grants, gifts, donations, and interest. While First Things First is also able to collect revenue from gifts, grants, and interest earnings, to meet the needs of children in Arizona advocates have begun to look for additional public funding sources, such as raising the taxes on e-cigarettes and vaping products so they're taxed the same way as other tobacco products.

ADMINISTRATION AND IMPACT

First Things First has a full-time staff and is governed by the Arizona Early Childhood Health and Development Board, which is composed of gubernatorial appointees with legislative approval. The ballot initiative created regional councils tasked with identifying and prioritizing unmet needs for early childhood development and health programs in their respective regions.

As of fiscal year 2025, the most recent year of available data, First Things First funds supported thousands of quality child care scholarships, tens of thousands of screenings, and many other parental and student support programs.

PATH TO ENACTMENT

Voters in Arizona decided to make a major investment in early childhood when they passed Proposition 203, "First Things First for Arizona's Children," in 2006 with 53% of voters approving the measure. A broad coalition of supporters backed the ballot initiative to pass Proposition 203, including youth-oriented nonprofits like Save the Children and health care groups like Blue Cross Blue Shield of Arizona, but also some nontraditional allies, with organizations like Bank of America and even the Arizona Cardinals contributing to the campaign. The only formalized opposition came from tobacco companies like Phillip Morris.

Although separate, the campaign in support of Proposition 201 of the same year may have helped contribute to the success of Proposition 203. Proposition 201 prohibited smoking in certain public areas and was supported by groups like the American Cancer Society, the American Heart Association, and the American Lung Association. The public health argument against secondhand smoke and its economic downsides were a key argument in getting both ballot initiatives across the finish line.

Proposition 203 significantly raised the state tax on tobacco products (a pack of cigarettes increased in price from $1.18 to $1.98 per pack) and used that revenue to establish and fund Arizona's Early Childhood Development and Health Board, which is now commonly know as First Things First. This revenue funds programs and services in local communities through grants administered to community-based organizations and other early childhood service providers by First Things First.

Sources:

First Things First, *Impacting Young Lives Through Arizona State Fiscal Year 2024 Annual Report* (Phoenix: First Things First, 2025), https://www.firstthingsfirst.org/wp-content/uploads/2024/09/FTF-2024-AnnualReport.pdf.

Arizona Legislative Council, *Proposition 203: I-16-2006; First Things First for Arizona's Children*, 2006, https://www.azleg.gov/2006_Ballot_Proposition_Analyses/final%20I-16-2006%20First%20Things%20First%20for%20Arizonas%20Children.pdf.

California

SUMMARY

- **Funding source:** Tobacco excise tax
- **Funding purpose:** Early childhood development, education, and smoking prevention
- **Annual funding (most recent year available):** $441 million (fiscal year 2024)
- **Method of enactment:** Ballot initiative, Proposition 10 of 1998
- **Year of enactment:** 1998
- **Fund name:** California Children and Families Trust Fund

FUNDING PURPOSE AND SOURCES

The California Children and Families Trust Fund was created with the passage of Proposition 10 in 1998, which created a new, dedicated funding stream for early childhood programs in California. This funding stream supports programs and services for early childhood development, including health care services for children; early care and education programs; and child abuse and neglect prevention programs. In fiscal year 2024, these dedicated funds went to improving family resiliency, child development, and child health, serving more than half a million children. The fund primarily receives revenue from a 50 cent per pack tax on cigarettes and the equivalent of a dollar per pack on other tobacco products. In fiscal year 2024, this fund raised more than $400 million in revenue.

ADMINISTRATION AND IMPACT

The fund is governed by a state commission, the California Children and Families First Commission, known colloquially as First 5 California. First 5 California receives 20% of the funds while 80% of the revenue is allocated to the 58 California counties based on annual birth rate. First 5 California's funds are used to advance statewide systems change efforts including making additional strategic investments in communities across the state. County commissions determine how to allocate their portion of the funds based on the specific needs and priorities of their communities.

PATH TO ENACTMENT

Voters approved Proposition 10—or the California Children and Families Act—by a vote of 51% to 49%. The act levied the additional tax on cigarettes and tobacco products and also created the California Children and Families Trust Fund and its governance structure. Proposition 10 was spearheaded by the "I Am Your Child" campaign but had broad support from health care and education organizations like the American Heart Association, the American Cancer Association, and the California School Boards Association, and also received bipartisan support from Democratic and Republican elected officials.

Sources:

California Budget Project, *What Would Proposition 10, the "California Children and Families First Initiative," Mean for California?* (Sacramento: California Budget Project, 1998), https://calbudgetcenter.org/app/uploads/980903Prop10.pdf.

California Secretary of State, "Voter Information Guide for 1998, General Election," 1998, https://repository.uclawsf.edu/cgi/viewcontent.cgi?article=2163&context=ca_ballot_props.

First Five California, "About," accessed July 2025, https://www.ccfc.ca.gov/about/about.html.

First Five California, *Annual Report FY 2023–24*, 2024, https://www.ccfc.ca.gov/pdf/about/budget_perf/annual_report_pdfs/FY%202023-24%20Annual%20Report_Final.pdf.

Colorado

SUMMARY

- **Funding source:** Tobacco and nicotine excise tax
- **Funding purpose:** K-12 education, pre-K education, tobacco education, and other health care programs
- **Annual funding (most recent year available):** $203 million (fiscal year 2023)
- **Method of enactment:** Ballot initiative, Proposition EE of 2020
- **Year of enactment:** 2020
- **Fund name:** Funding is allocated to several programs, including a portion for preschool programs

FUNDING PURPOSE AND SOURCES

The Colorado Universal Preschool Program is a mixed-delivery system of high-quality preschool settings that allows families to choose from licensed community-based programs, school-based programs, and licensed home providers. All preschool children in Colorado can register for up to 15 hours of free, high-quality preschool weekly.

Because nicotine vaping products were not taxed in Colorado before Proposition EE passed, the tax on these tobacco products was designed to incrementally phase-in up to 22% of the manufacturer's list price. In the first fiscal year after the measure passed, the tax revenue was used for public school funding to help offset the negative impacts on the economy due to the COVID-19 pandemic and invest in programs that reduce the use of tobacco and nicotine products. After that, and every year after, the revenue will be used to enhance the Colorado Universal Preschool Program.

The Colorado Universal Preschool Program enrolled more than 43,479 children in fiscal year 2023–2024.

In 2023, the tax on nicotine vaping products brought in $203 million, which is $23.65 million above projected revenue. Under the Taxpayer Bill of Rights in Colorado, revenue exceeding estimates is required to be returned to voters as refunds unless voters approve retaining the excess revenue for a specific purpose; voters overwhelmingly voted to transfer the funds back to the preschool programs and state's general funds.

ADMINISTRATION AND IMPACT

As part of the universal preschool program implementation process, the legislature created the Colorado Department of Early Childhood, which is a state agency that helps to streamline the collection and administration of early childhood funding and services, including the Colorado Universal Preschool Program.

PATH TO ENACTMENT

In November 2020, Colorado voters passed a ballot initiative referred by the state legislature—Proposition EE—to incrementally increase taxes on nicotine and vaping products to fund pre-K services.

The Proposition EE campaign's success can be attributed to years of coalition building and advocate persistence. After previous attempts to raise taxes on nicotine and raise revenue for education programs failed, opportunities for a new campaign emerged in 2020 as the pandemic hit the child care sector hard, and a string of highly publicized cases of teen deaths due to vaping products provided significant momentum and support for children's advocates and state legislators. While there was some opposition to the ballot measure, tobacco companies did not oppose nor back any opposition campaigns. Proposition EE gained support as Election Day in 2020 approached and won with an impressive 66% of the vote.

Sources:

Colorado General Assembly, "2020 Colorado Ballot Analysis," 2020, https://leg.colorado.gov/ballots/taxes-nicotine-products.

Colorado Department of Early Childhood, *Colorado Universal Preschool Program: SY 2023–24* (Denver: Colorado Department of Early Childhood, 2025), https://drive.google.com/file/d/1km52nfMUn5Qtlerh0c80-I2hBh84prCg/view.

Anne Schimke, "Proposition EE, Nicotine Tax Measure for Universal Preschool, Cruises to Victory," *Chalkbeat* Colorado, November 3, 2020, https://www.chalkbeat.org/colorado/2020/11/3/21548349/proposition-ee-colorado-2020-election-results/.

New Mexico

SUMMARY

- **Funding source:** Land Grant Permanent Fund and one-time transfer
- **Funding purpose:** Early childhood education
- **Annual funding (most recent year available):** $150 million (fiscal year 2024)
- **Method of enactment:** Ballot initiative, Amendment 1 of 2022
- **Year of enactment:** 2022
- **Fund name:** New Mexico Early Childhood Education and Care Fund

FUNDING PURPOSE AND SOURCES

The Land Grant Permanent Fund collects revenue that the state earns from leases and royalties from oil and gas companies that operate on public lands and is valued at around $26 billion. As of 2022, the amount of revenue that the state draws down from the Land Grant Permanent Fund annually was increased from 5% to 6.25% (of the fund's average value over five years) in perpetuity with no sunset provisions. The additional 1.25% drawn down is split 60/40 between the Early Childhood Education and Care Department and K-12 public education. (Prior to the passage of Amendment 1, 5% of the Land Grant Permanent Fund was drawn down annually for the purpose of funding higher education and health care. The passage of Amendment 1 amended the state constitution such that it increased the percentage of revenue drawn from the Land Grant Permanent Fund to 6.25%.)

ADMINISTRATION AND IMPACT

Since 2022, these funds have allowed New Mexico to make significant investments in early care and education such as supporting free child care for families that earn less than 400% of the federal poverty level; expansions of early childhood programs and services; an increase in early educator pay, and other elements of the Early Childhood Education and Care Department's strategic plan.

PATH TO ENACTMENT

Before 2019, early childhood was overseen by a combination of four different state agencies in New Mexico. In 2019, with support from children's advocates, the legislature created the New Mexico Early Childhood Education and Care Department, which is a specific department that directs and streamlines the collection and administration of early childhood funding. In 2020, [House Bill 83](#) created the Early Childhood Education and Care Fund, an endowment seeded with a one-time appropriation of $300 million. As of 2023, the endowment contributes 5% of its three-year rolling average value ($30 million in fiscal year 2024) to the Early Childhood Education and Care Department.

In November 2022, New Mexican voters overwhelmingly approved a constitutional amendment that increased the revenue drawn down from the Land Grant Permanent Fund to significantly increase investments in early childhood education and K-12 public education. The campaign's success was over a decade in the making. Several strategies were key to its success. After a decade-long effort to ensure the amendment's passage in the state legislature so that it could be placed on the ballot for consideration by voters, advocates formed the "Vote Yes for Kids" campaign that brought together a multifaceted coalition of advocacy groups, many of whom had never focused on early childhood education previously. Together, these groups created a multifaceted campaign that included outreach, education, extensive media and communications work, digital organizations, direct voter engagement through texts and mailers, and a massive field and organizing program that helped mobilize early childhood workers, parents, and underrepresented voters. By ensuring inclusion and leadership development of groups that had historically not engaged with early childhood, the campaign leaders expanded the universe of potential supporters and broadened the field of groups that supported the implementation of the amendment and then became strong advocates for early childhood issues. The amendment gained support as Election Day approached and won with a staggering 70% of the vote.

Sources:

New Mexico Early Childhood Education & Care Department, "Reports and Plans," accessed July 2025, https://www.nmececd.org/2021/12/17/report-and-plans/.

New Mexico State Investment Council, "Early Childhood Education and Care Fund," accessed July 2025, https://www.sic.state.nm.us/investments/permanent-funds/early-childhood-education-and-care-fund/.

Oregon

SUMMARY

- **Funding source:** 20% of revenue from the corporate activity tax
- **Funding purpose:** Pre-K and K-12
- **Annual funding (most recent year available):** $1 billion, with $529 million going to early childhood care and education (fiscal years 2023-2025)
- **Method of enactment:** Legislative action, HB3427
- **Year of enactment:** 2019
- **Fund name:** Student Success Fund

FUNDING PURPOSE AND SOURCES

In 2019, Oregon established a corporate activity tax on businesses whose commercial activity exceeds $1 million. This tax was intended to generate at least $1 billion every year for the Student Success Fund for K-12 and early childhood education. The law requires that at least 20% of the revenue from the corporate activity tax go toward early childhood education in perpetuity with no sunset provisions. In the 2023–2025 biennium budget, the tax provided $529 million for early learning over two years.

This early childhood dedicated revenue funds programs including early intervention and early childhood special education, Early Head Start, parenting engagement, half- and full-day preschool, and professional development for early childhood educators.

ADMINISTRATION AND IMPACT

Money from the Student Success Fund flows into several different funds, including the Early Learning Account. This account is administered by the Early Learning Division of the Oregon Department of Education, where it is used to fund child care slots (including for infants and toddlers), early intervention, professional development for early childhood educators, and more.

In fiscal year 2024–2025, these funds helped support more than 5,000 preschool slots, more than 16,000 child care slots, and more than 30 prenatal to kindergarten sites.

PATH TO ENACTMENT

The Oregon legislature passed the Student Success Act in 2019. The story of its passage is a testament to the importance of choosing a tax policy mechanism that is appropriate in the context of the state but also quells opposition, learning from previous attempts, and working in coalition.

Oregon is one of five states with no sales tax. The state also passed property tax caps in the 1990s (with Measure 5 and Measure 50) and had some of the lowest corporate taxes in the country. Oregon's finances were overly reliant on personal income taxes, which put it in a precarious position. All of this limited the potential sources of new revenue available for the state.

In 2016, labor unions proposed a gross receipts tax through a corporate minimum tax via ballot measure called Measure 97, which voters overwhelmingly voted against. In 2017, the legislature put together a joint committee on student success to study successful education and funding models. The result of the committee's work was the introduction of the Student Success Act during the 2019 legislative session, where it passed and was signed into law by then Gov. Kate Brown.

Support from labor unions and nonprofits for the Student Success Act legislation was critical. The groups had worked closely together for years on Measure 97, and defended against various antitax measures, through the Our Oregon and the Fair Shot for All coalitions. Despite opposing tax measures in the past, some of Oregon's largest public companies, like Nike, ultimately supported the bill, in part because the tax only applies to business activity within Oregon, and not business activity of Oregon-based businesses in other states or countries.

Sources:

Oregon Department of Education, *2023–2025 Student Success Act: How the Revenue Flows* (Salem: Oregon Department of Education, n.d.), https://www.oregon.gov/ode/StudentSuccess/Documents/GO%20SSA%202023-25%20LAB%20FINAL%20ONLY%20PORTRAIT.pdf.

Oregon Department of Early Learning and Care, "Data Dashboards," accessed July 2025, https://www.oregon.gov/delc/data/Pages/default.aspx.

Oregon Secretary of State, "A Better Oregon," accessed July 2025, https://egov.sos.state.or.us/elec/web_irr_search.record_detail?p_reference=20160028..ASCYYY.

Vermont

SUMMARY

- **Funding source:** All revenue from a 0.44% payroll tax
- **Funding purpose:** Early care and education
- **Annual funding (most recent year available):** $80 million (fiscal year 2023)
- **Method of enactment:** Legislative action, Act 76 of 2023
- **Year of enactment:** 2023
- **Fund name:** Child Care Contribution Special Fund

FUNDING PURPOSE AND SOURCES

Act 76 of 2023 created a payroll tax that dedicates $80 million annually, in perpetuity with no sunset provisions, to meeting Vermont's child care goals. The payroll tax is applied at a rate of 0.44%, paid by employers, though employers may deduct one quarter of the tax from employee wages (or 0.11%). Similarly, self-employed Vermonters are only subject to a 0.11% rate.

Funding generated by the payroll tax expands Vermont's financial assistance for child care, supports increased capacity and quality for child care programs, improves child care provider wages, and provides professional development opportunities.

ADMINISTRATION AND IMPACT

The programs the payroll tax supports are primarily administered by the Child Development Division of the Department for Children and Families.

The revenue from the payroll tax was projected to support 7,000 more children in accessing child care in its first year, and initial data shows that the new funding may be contributing to the reversal of a years-long trend of more child care centers closing than opening in the state.

PATH TO ENACTMENT

After advocates worked hard for years for systems investment and change, in 2023, the Vermont legislature passed Act 76, establishing a payroll tax to fund expanded investments in affordability, accessibility, and quality for early child care in Vermont. This historic legislation built on years of work from the Let's Grow Vermont campaign and early childhood providers and advocates from across the political spectrum.

In 2021, the state legislature authorized a study of financing in the early care system in Vermont. This Early Care and Education Financing Study, conducted between 2021 and 2023, estimated that the state would require $279 million in additional annual funding to meet its child care goals. One of the potential mechanisms studied to raise that revenue was a payroll tax.

Advocates worked closely with the business community to demonstrate the economic case for child care, building a broad consensus that helped overcome opposition and deliver a big win for kids and families by passing a payroll tax to fund child care. While the bill received overwhelming support from the state legislature, Gov. Phil Scott initially vetoed the legislation citing concerns over cost. He proposed to instead add a mere $56 million to the child care system from general funds in the state budget. It required bipartisan cooperation to override this veto, which the legislature subsequently did.

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Washington

SUMMARY

- **Funding source:** Capital gains tax
- **Funding purpose:** Early learning and child care
- **Annual funding (most recent year available):** $890 million (fiscal year 2023)
- **Method of enactment:** Legislative action, SB5096
- **Year of enactment:** 2021
- **Fund name:** Education Legacy Trust Fund and Common School Construction Account

FUNDING PURPOSE AND SOURCES

In 2021, Washington legislators made a historic investment in early education by imposing a 7% tax on capital gains income above a certain threshold (excluding certain exemptions, deductions, and credits). The first $500 million of annual revenue generated by the capital gains tax is allocated to the Education Legacy Trust Fund and any additional revenue generated is transferred to the Common School Construction Account. Funds from the Education Legacy Trust Fund are largely used to fund early learning and child care programs.

In 2025, Washington increased the capital gains excise tax with an additional 2.9% surcharge on gains for those with $1 million in capital gains above the exemption leaving existing allocations in place. These funds exist in perpetuity, barring any future legislative changes, with no sunset provisions.

ADMINISTRATION AND IMPACT

In the biennium 2023–2025 budget, $386 million went from the Education Legacy Trust Fund to the Department of Children, Youth and Families to support early learning and child care, primarily through the state's Early Childhood Education and Assistance Program.

Revenue from the new tax far exceeded projections in the first year of collections. This corresponded with a more than $350 million increase in dedicated spending on child care and early learning.

The revenue from the capital gains excise tax has enabled thousands of additional pre-K and early child care slots in addition to funding dozens of school construction projects across the state.

PATH TO ENACTMENT

The creation of the Education Legacy Trust Fund and Common School Construction Account followed years of campaigning from a variety of advocates, as the first proposal to tax capital gains in Washington was publicly authored a decade ago. Key supporters included the Washington Education Association, the YWCA of King County, and the Washington Budget and Policy Center, who originally crafted the legislation. Advocates for expanded investments in children and youth allied with advocates for a more equitable tax code, like All in for Washington, Balance Our Tax Code, and Invest in Washington Now. Together, these

coalitions and campaigns represented more than 80 organizations statewide. A key argument this campaign utilized was, lacking a traditional personal income tax, Washington's tax code was one of the most regressive in the nation, and an excise tax on capital gains, which falls primarily on those with the highest incomes, makes their tax code more equitable.

Despite popular approval, the enactment of a new tax to generate state revenue for children and youth drew opposition. In 2022, after the legislation passed, a small group of wealthy investors challenged the constitutionality of the tax in Washington. In other states, capital gains taxes are typically levied through the state income tax code, which Washington does not have. After an ensuing court battle, the legality of the new capital gains tax in Washington was upheld in a 7–2 ruling by the Washington State Supreme Court. Unsatisfied, corporate interests looked to repeal the capital gains tax via ballot initiative in 2024, which Washington voters overwhelmingly opposed by a 63–37 margin. Then, in 2025, the legislature passed a further increase to the capital gains tax, creating an additional bracket for those making more than $1 million.

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Connecticut

SUMMARY

- **Funding source:** Unappropriated surplus; income from interest
- **Funding purpose:** Early care and education
- **Annual funding (most recent year available):** $300 million (fiscal year 2025)
- **Method of enactment:** Legislative action, SB 1
- **Year of enactment:** 2024, 2025
- **Fund name:** Early Childhood Education Endowment

FUNDING PURPOSE AND SOURCES

The Early Childhood Education Endowment fund is designed to address critical workforce and affordability challenges in Connecticut's child care system. Starting in fiscal year 2028, families earning an annual gross income of less than $100,000 per year will pay nothing for child care services, while families who earn more will be financially responsible for child care costs up to the equivalent of 7% of their income. The endowment is projected to create 16,000 new child care slots by 2030 and ensure that, by July 2027, early childhood educators earn a salary comparable to that of public school kindergarten teachers.

While the fund was originally created in 2024 without a dedicated source of funding, legislation passed in 2025 now ensures that the Early Childhood Education Endowment receives funding through transfers of estimated unappropriated surplus revenue. For fiscal year 2025, up to $300 million was transferred to seed the endowment. In subsequent years, the entire amount of unappropriated surplus funds will be transferred, unless the state's Budget Reserve Fund falls below a certain threshold.

ADMINISTRATION AND IMPACT

The endowment is administered by the state treasurer. The Office of Early Childhood receives annual disbursements from the endowment—up to 12% of total funds for fiscal years 2026 and 2027, and up to 10% for fiscal year 2028 and beyond. The fund is governed by the Early Childhood Education Endowment Advisory Board, which oversees administration and ensures funds are spent according to legislative requirements.

PATH TO ENACTMENT

Connecticut lawmakers first created an early childhood endowment framework in 2024 but did not fund it. In 2025, they passed SB1 to fill the endowment with surplus revenue, taking advantage of the state's strong fiscal position due to self-imposed spending caps that had been directing excess money to the state's rainy day fund.

The legislation was championed by advocates like Merrill Gay, executive director of the Connecticut Early Childhood Alliance, who worked with legislative allies to demonstrate the economic necessity of stable child care funding. The fund's structure was designed to be self-sustaining over time, meaning it won't have to compete with other priorities like Medicaid or higher education for ongoing revenue. With expected annual investments from Connecticut's budget surplus, the endowment is projected to grow to nearly $1 billion by 2028.

The endowment's creation reflects lessons learned from the pandemic about child care's essential role in the economy, as well as successful models from other states.

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Montana

SUMMARY

- **Funding source:** Interest from income
- **Funding purpose:** Early childhood education and care
- **Annual funding (most recent year available):** $10 million
- **Method of enactment:** Legislation, HB924 of 2025
- **Year of enactment:** 2025
- **Fund name:** Montana Early Childhood Account

FUNDING PURPOSE AND SOURCES

In 2025, Montana set aside a one-time revenue surplus of $10 million from fiscal year 2026 to invest in a range of state priorities under the Montana Growth and Opportunity Trust. This trust will distribute half of its funds to the enumerated purposes of Montana early childhood (20%), a state property tax assistance program (40%), water development (20%), and bridges (20%). The remaining half of the surplus will be reinvested to generate new revenue into the future.

The Montana early education funds will go toward grants supporting early care and education provider support, quality improvement initiatives, affordability initiatives, and innovations initiatives.

ADMINISTRATION AND IMPACT

The Montana Early Childhood Account is a fund in the state treasury that is held for use by the Department of Public Health and Human Services. The account is governed by the Montana Early Childhood Account board, composed of 10 members that are specifically enumerated in legislation, including representation from child care providers, state and local community early childhood organizations, and legislative representatives.

As a brand new fund, the state has not yet seen its impact, but early priorities include early care and education provider support, quality improvement initiatives, affordability initiatives, and innovations initiatives.

PATH TO ENACTMENT

In 2025, multiple state legislators filed legislation to address the lack of child care in the state, but the key legislation that ultimately prevailed was HB924, which was sponsored by a Republican but received bipartisan support and was signed by Gov. Greg Gianforte in June 2025.

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Nebraska

SUMMARY

- **Funding source:** Land trust fund
- **Funding purpose:** Early childhood education
- **Annual funding (most recent year available):** $2.5 million (fiscal year 2024)
- **Method of enactment:** Ballot initiative, Amendment 5 of 2006
- **Year of enactment:** 2006
- **Fund name:** Early Childhood Education Endowment Fund or the Sixpence Early Learning Fund

FUNDING PURPOSE AND SOURCES

The Sixpence Early Learning fund focuses on providing funding and technical assistance to high-quality early childhood programs that target children from birth to 3 years old who are most likely to encounter challenges to their healthy physical, cognitive, and social development.

When originally created, the Sixpence Early Learning Fund was seeded with a one-time transfer of $40 million from the state's land trust fund as well as $20 million from private donors. The state's land trust fund is called the Educational Lands and Trust Fund and raises revenue for K-12 education through agricultural, mineral, and renewable energy leases. Amendment 5 expanded the uses of fund revenue to include early learning programs for the purpose of investing in the new Sixpence Early Learning Fund. In addition to the interest income the Sixpence Early Learning Fund receives from its seed money, in 2014 and 2019 the legislature approved additional resources from the general fund to support the Sixpence Early Learning Fund. Both the public and private funds are invested separately and the interest generated each year is transferred to the Nebraska Department of Education. There is no sunset provision, but the exact amount of funding available varies from year to year depending on available revenue in the fund.

ADMINISTRATION AND IMPACT

The governor appoints a board to oversee the Sixpence Early Learning Fund, which includes the commissioner of education, the CEO of the state's Department of Health and Human Services, and representatives from early childhood groups and the private sector. In 2007, the Board of Trustees for the Sixpence Early Learning Fund selected the Nebraska Children and Families Foundation as the private endowment provider, building on the fund's public-private partnership model. As endowment provider, the foundation created the Sixpence brand and administers the endowment funds through a competitive grantmaking process, with oversight by the Nebraska Office of Early Childhood.

In the 2022–2024 biennium, the Sixpence Early Learning Fund served more than 1,200 children across 40 counties and 42 school districts in Nebraska.

PATH TO ENACTMENT

Voters in Nebraska approved Amendment 5 in 2006, known as the Early Childhood Education Endowment Fund Amendment. The Nebraska legislature referred the constitutional amendment to the voters, who passed the amendment 54% to 46%. The amendment authorized the use of Educational Lands and Trust Fund dollars to support early childhood and created and seeded the Early Childhood Education Endowment Fund, also called the Sixpence Early Learning Fund. A wide-ranging bipartisan coalition supported the legislation and the ballot measure campaign, including philanthropy groups and state Sen. Ron Raikes who was critical in passing the legislation.

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Tennessee

SUMMARY

- **Funding source:** One-time deposit of $250 million
- **Funding purpose:** To provide mental health support to students in elementary and secondary schools in Tennessee
- **Annual funding (most recent year available):** $6 million (fiscal year 2024)
- **Method of enactment:** Legislative action, HB0073 of 2021
- **Year of enactment:** 2021
- **Fund name:** K-12 Mental Health Trust Fund

FUNDING PURPOSE AND SOURCES

The K-12 Mental Health Trust Fund was created with a one-time transfer of $250 million in recognition of the increasing mental health needs of children in Tennessee and nationwide.

The goal of the fund is to provide early intervention and prevent children from reaching a point of crisis. Funds can be utilized for the following purposes: to provide direct clinical services within schools; support mental health awareness and promotion programs; implement suicide prevention and postvention strategies; develop trauma-informed programs and practices; violence and bullying prevention programs; and support assessments to review existing county-level resources for students' mental and behavioral health to identify gaps and areas for improvement.

ADMINISTRATION AND IMPACT

The K-12 Mental Health Trust Fund is structured as follows:

- Endowment account: This holds 90% of the initial deposit as principal. The principal cannot be spent.
- Special reserve account: This holds 10% of the initial deposit, plus all income generated from investments, and any subsequent donations.

The income generated from the endowment account, and any funds deposited into the special reserve account, are available for appropriation for the fund's many allowable uses. The board determines each year the amount of revenue to be made available for grants based on an annual financial audit of the funds. For fiscal year 2024, the first year of operations, that amount was $6 million. These funds are administered by the state treasurer through a four-person board of trustees, which then provides the funds to the Department of Mental Health and Substance Abuse Services. The four-person board votes to release the funds and determines recipients through a competitive grant process.

In the fund's first year, more than 26,000 students received direct services.

PATH TO ENACTMENT

Tennessee Gov. Bill Lee introduced the Mental Health Trust Fund in 2021 as part of a larger proposal to address the impact of COVID-19 on the mental health of students.

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South Carolina

SUMMARY

- **Funding source:** Sales tax
- **Funding purpose:** Early education
- **Annual funding (most recent year available):** $93 million (fiscal year 2025–2026)
- **Method of enactment:** Legislative action, Education Improvement Act of 1984
- **Year of enactment:** 1984
- **Fund name:** Various Education Improvement Act programs

FUNDING PURPOSE AND SOURCES

South Carolina established a 1% sales tax levy to fund a large education reform investment in 1984 via the Education Improvement Act. This revenue has no sunset provision. In fiscal year 2025–2026, revenue from this sales tax levy raised more than $1 billion for education in South Carolina. About $93 million of this went to early childhood education, with the rest allocated to public K-12 schools.

The early learning portion of these funds supports many different programs, including half-day 4K, early learning and literacy programs, and South Carolina First Steps—a state agency tasked with closing the opportunity gap for early learners by providing free 4K and other school readiness programs for children from low-income families in nonpublic school settings.

ADMINISTRATION AND IMPACT

Revenue from the 1% education sales tax levy is allocated annually to K-12 and early learning through the state budgeting process. Funds for public K-12 education go to the South Carolina Department of Education. Funds for early learning go to the Department of Education and South Carolina First Steps, which in fiscal year 2024 offered direct services to more than 50,000 families and children with the goal of ensuring school readiness.

PATH TO ENACTMENT

The Education Improvement Act was proposed and supported by Gov. Richard Riley in response to the 1983 publication of *A Nation at Risk*, a report from the National Commission on Excellence in Education regarding the state of public education in America at the time. The governor created the Blue Ribbon Committee on Financing Excellence in Education and utilized it to push a campaign message forward through the media with support from organizations like teachers' unions and the members of the business community.

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District of Columbia

SUMMARY

- **Funding source:** General fund allocation
- **Funding purpose:** Early childhood education
- **Annual funding (most recent year available):** $70 million (fiscal year 2025)
- **Method of enactment:** Legislation
- **Year of enactment:** 2021
- **Fund name:** Early Childhood Educator Pay Equity Fund

FUNDING PURPOSE AND SOURCES

The Early Childhood Educator Pay Equity Fund is designed to address the significant pay gap between early childhood educators and their K-12 counterparts, a disparity that leads to high turnover rates and staffing shortages for early education providers and which can adversely impact the quality of early childhood education. In the short term, the fund seeks to stabilize the early childhood workforce by providing a much needed pay boost and expanded health insurance access. The long-term goal is to create a more sustainable, equitable, and high-quality system that values and supports the essential work of early childhood educators while setting up our youngest learners for success.

In 2021, the Council of the District of Columbia enacted a personal income tax increase on high-income earners who make more than $250,000 per year, using some of the revenue to establish the Early Childhood Educator Pay Equity Fund. In subsequent years, the fund has been supported through allocations from the general budget. Current legislation governing the fund specifies an annual allocation of $70 million starting in fiscal year 2025 and thereafter, though this distribution pattern could be altered by future amendments or budget processes.

ADMINISTRATION AND IMPACT

The Early Childhood Educator Equitable Compensation Task Force has been established to oversee the program, monitor its impact, and recommend adjustments to ensure its effectiveness. Fund allocation is determined by a formula that considers factors such as class size, hours of operation, educator credential level, facility setting and the proportion of children receiving child care subsidies in the facility.

Early research on the program is positive. According to one study, the Early Childhood Educator Pay Equity Fund cost about $54.22 million to implement in fiscal year 2023, with the program benefits calculated to be around $66.76 million, meaning the pay equity fund generated more money than it cost due to reductions in staff turnover and reduced reliance on public assistance programs.

District of Columbia

PATH TO ENACTMENT

The Early Childhood Educator Pay Equity Fund was created in 2021 with support from groups working in coalition as Under 3 DC, including organizations like DC Action, the DC Fiscal Policy Institute, Spaces in Action, Jews United for Justice, the Early Childhood Innovation Network, the DC Early Learning Collaborative, and more.

The idea of pay parity for early childhood educators with K-12 educators was embedded in previous legislation that the Council of the District of Columbia passed in 2018. The Birth-to-Three for All DC Act included provisions to expand early educator pay through the child care subsidy program. However, during the pandemic, the District of Columbia experienced an early educator and child care shortage, like the rest of the country. Due to the long-time work of advocates to educate the district's elected officials about the challenges of the early care and education system, advocates succeeded in prioritizing the issue of early educator pay during that time as a way to aid in a strong recovery for the district during and after the pandemic.

As a testament to the community-driven relationships, the task force that the city council created in the law that established the pay equity fund included both advocates and, notably, early childhood educators and programs directors.

To implement the pay equity fund quickly, the city implemented it in two phases. The first phase provided direct pay supplements to educators, while the task force developed recommendations for a permanent structure. In the second phase, child development programs that employ early childhood educators receive funding based on a formula and must use it to meet the district's minimum salary requirements for early educators.

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