

**FINANCING CARE FOR INFANTS AND TODDLERS**  
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High-quality care for infants and toddlers is essential to the well-being of families. It supports the healthy development and learning of children during their crucial early years and enables parents to work so they can gain financial security for themselves and their families—and in fostering children’s success and parents’ ability to work, high-quality infant/toddler care bolsters our economy. Yet financing a system of high-quality infant/toddler care poses several challenges. High-quality care for very young children requires low child-teacher ratios so that the children can receive the one-on-one attention they need for their basic safety and the interactions that promote their brain development. It also entails substantial expenses for equipment and supplies, including cribs and high chairs. Due to these costs of providing care, annual fees for infant care average from nearly \$4,200 to \$20,900 a year, depending on where in the country the family lives and the type of care the family uses; in New Jersey, the average annual fee for center care for an infant is \$15,600.<sup>1</sup> And even these fees are typically not sufficient to adequately support a high-quality program with well-paid teachers, leaving child care programs struggling to keep their doors open and child care teachers—who are mostly women and disproportionately women of color—struggling to support their own families on poverty-level wages. Teachers who work with infants receive particularly low wages; the National Survey of Early Care and Education found that, in 2012, the median hourly wage for center-based teachers and caregivers was \$11.90 for those caring for children ages three through five and just \$9.30 for those caring for children under age three.<sup>2</sup>

At the same time, parents already struggle to afford child care, and cannot afford any additional costs beyond what they manage to pay now. Families with employed mothers that have children under age five and that pay for child care spend an average of 10 percent of their income for that care; families with incomes below 200 percent of poverty that pay for care spend an average of 35 their income for care.<sup>3</sup> Many families—especially low-income families—must cobble together lower-cost, informal options, or find themselves unable to work because they cannot afford any child care. Parents of infants and toddlers have particular challenges affording the cost of care because they are often just starting their jobs and careers and still earning limited incomes and have little if any savings. Nearly half (45 percent) of infants and toddlers—including 69 percent of Black infants and toddlers and 63 percent of Latino infants and toddlers—live in low-income families (families with incomes at or below 200 percent of poverty).<sup>4</sup> Approximately one out of five working mothers of young children work in low-wage jobs.<sup>5</sup>

Given that current fee levels are inadequate to support high-quality care or to pay child care teachers what they deserve, and given that parents are unable to contribute more, it is essential to expand public funding to fill the gap. A number of existing federal and state programs and

funding streams—including the Child Care and Development Block Grant and Early Head Start—are available to support infant and toddler care. These programs and funds are helping families afford infant/toddler care and supporting initiatives to boost the quality and availability of infant/toddler care. Yet existing funding from these sources is far from sufficient to meet the need. A substantial boost in federal, state, and local funding will be necessary to ensure that families have equitable access to affordable, high-quality care for their infants and toddlers. The funding must support not only assistance to help families afford the core child care program, but also cover the costs of an expanded supply of high-quality programs and highly qualified early educators. In addition, the financing system must be multifaceted and flexible enough to support a range of forms of infant/toddler care—including home-based care if preferred by the family, specialized care for infants and toddlers with disabilities, and nontraditional-hour care for parents working evenings, nights, and weekends—so that it meets the varied needs and choices of families with young children.

To adequately finance high-quality infant-toddler care, it is essential to identify the gaps in existing early care and education programs and in funding for these programs, assess the extent of additional funding needed to address the gaps in programs, and determine how that additional funding can be used to strengthen each individual program and their ability to work together to comprehensively meet families' needs for infant/toddler care.

### **Child Care and Development Block Grant**

The Child Care and Development Block Grant (CCDBG), the major federal child care assistance program, provides funds to states to help low-income families afford child care for their children birth to age 13 and to support improvements in the quality of care. Over one-quarter of children receiving child care assistance through CCDBG nationwide are under age three—5 percent are under age one, 10 percent are age one, and 13 percent are age two; in New Jersey, 4 percent are under age one, 11 percent are age one, and 14 percent are age two.<sup>6</sup>

States are now required to set aside 3 percent of their federal and state CCDBG funds to support efforts to expand the supply and quality of infant/toddler care. States can use these funds for a variety of purposes, including establishing or expanding high-quality community- or neighborhood-based family and child development centers and/or neighborhood-based family child care networks to support the provision of high-quality care; training and professional development for infant-toddler caregivers; coaching and technical assistance from statewide networks of qualified infant-toddler specialists; coordination with early intervention specialists; developing infant-toddler components within the state's quality rating system, licensing regulations, or early learning and development guidelines; consumer education on high-quality infant-toddler care; and/or other activities that will improve the quality of infant-toddler care.

New Jersey is using its infant/toddler care set-aside to support activities and initiatives such as a network of infant/toddler specialists who provide onsite technical assistance, coaching, and training to providers that care for infants and toddlers; training for providers on early childhood mental health; a centralized intake system for early childhood services that includes screenings, assessments, and referrals for infants and toddlers; health and mental health consultations and services for programs serving infants and toddlers; and financial incentives to encourage more providers to serve infants whose families receive child care assistance.<sup>7</sup>

After years of largely stagnant funding, the CCDBG program received a major increase in federal funding—of \$2.37 billion—in FY 2018, bringing total federal CCDBG funding to \$8.143 billion.<sup>8</sup> Federal CCDBG funding was increased slightly above that level in FY 2019, to \$8.193 billion,<sup>9</sup> and then increased significantly in FY 2020, to \$8.743 billion.<sup>10</sup> Federal CCDBG funding is supplemented by \$2.124 billion in state matching and maintenance of effort funds.<sup>11</sup> Even with the recent increases, total federal funding for child care in FY 2020—through CCDBG and Temporary Assistance for Needy Families (TANF) block grant funding used for child care—remained nearly \$635 million below the total funding level in FY 2001 after adjusting for inflation.<sup>12</sup>

For those families able to receive assistance and better afford the care they want for their children, child care assistance makes a real difference in their lives. But significant additional resources are needed to enable more low-income families to receive child care assistance and ensure adequate support for providers who serve these families.

### *Addressing Gaps in Access to Child Care Assistance*

Due to inadequate funding, fewer than one out of six children eligible for child care assistance under federal law received it in 2016 (the most recent year for which data are available).<sup>13</sup> Eligible children under age three were less likely than eligible children ages three and four to receive assistance. For example, among children in families with incomes below 100 percent of poverty, 23 percent of eligible children under age one, 36 percent of eligible one-year-olds, and 49 percent of eligible two-year-olds were served, compared to 57 percent of eligible three-year-olds and 56 percent of eligible four-year-olds.<sup>14</sup> Among children in families with incomes from 100 to 149 percent of poverty, 14 percent of eligible children under age one, 24 percent of eligible one-year-olds, and 38 percent of eligible two-year-olds were served, compared to 38 percent of eligible three-year-olds and 37 percent of eligible four-year-olds.<sup>15</sup>

States, which are given flexibility to determine key child care assistance policies within federal parameters, often limit access to child care assistance by setting restrictive eligibility criteria. States can allow families with incomes up to 85 percent of state median income to qualify for

child care assistance, but most states set their income limits to qualify for assistance below this level. In 13 states, a family with an income above 150 percent of poverty (\$31,995 a year for a family of three) could not qualify for assistance in February 2019.<sup>16</sup> In 35 states, including New Jersey, a family with an income above 200 percent of poverty (\$42,660 a year for a family of three) could not qualify for assistance.<sup>17</sup> Even if families qualify for assistance, they may not receive it; nearly one-third of states put at least some families who apply on waiting lists for assistance or freeze intake (turn families away without adding their names to a waiting list).<sup>18</sup>

The proposed Child Care for Working Families Act of 2019 would aim to address these gaps by greatly expanding federal funding for, and access to, child care assistance.<sup>19</sup> The bill would ensure that families with incomes under 150 percent of state median income would pay no more than 7 percent of their income for child care, with families earning less than 75 percent of state median income having their child care costs fully covered. The bill places a priority on infant/toddler care, requiring the federal government to cover a higher proportion of the costs for child care assistance for infants and toddlers (90 percent, with states contributing the remaining 10 percent) than for other age groups. Under the bill, federal funding would be \$20 billion for FY 2020, \$30 billion for FY 2021, and \$40 billion for FY 2022.

#### *Questions for Future Research*

- *How many low- and moderate-income families who need help paying for infant/toddler care are not receiving assistance?*
- *How much additional funding for child care assistance would be required to address this unmet need?*

#### ***Addressing Gaps in Provider Payment Rates and Policies***

In addition to limiting access, inadequate CCDBG funding also results in low payment rates for child care providers serving families receiving child care assistance. States are encouraged—but not required—to set provider payment rates at the 75<sup>th</sup> percentile of current market rates. The 75<sup>th</sup> percentile of market rates is a flawed benchmark given that the market does not reflect the full cost of providing care and supporting adequate wages for teachers, yet most states do not even meet this standard. Only four states had rates at the federally recommended level as of February 2019,<sup>20</sup> and many states had payment rates far below this level; for example, in 20 states, the payment rate for center care for a one-year-old was 20 percent or more below the recommended level in 2019.<sup>21</sup> New Jersey, after failing to increase payment rates for centers for a decade, finally raised payment rates in May 2018, and again in January 2019, September 2019, and January 2020—yet the state’s base payment rate for center care for an infant is still 24 percent below the recommended level.<sup>22</sup> Low payment rates discourage many providers from serving families receiving assistance, and deprive providers who do serve these families of the resources needed to support high-quality care and fair wages for child care teachers.

A number of states have higher (tiered) payment rates for higher-quality care, but even these rates often fall below the recommended level—and the differential often fails to cover the additional costs entailed in improving quality, including for the additional teachers needed to reduce child-teacher ratios, increased salaries for teachers with advanced education in early childhood development, teacher training, facilities upgrades, and/or new equipment. In 2018, 40 states paid tiered rates for infant care provided by centers meeting higher-quality standards, but in 28 of these states, rates for centers at the highest quality level were still below the federally recommended level.<sup>23</sup> New Jersey established tiered rates for higher-quality care in June 2018, and then increased those rates in January 2019, September 2019, and January 2020; the state’s payment rate for infant care in a center at the highest quality level is still below the 75<sup>th</sup> percentile of market rates.<sup>24</sup>

Many states pay differential rates for other types of specialized care, such as care for children with special needs or care during nontraditional hours, but the differential is often small and inadequate as an incentive for providers to offer the care or as compensation for the additional costs of this specialized care, and there is not always a clear rationale for how the differential rate is set.<sup>25</sup> In February 2018, 38 states paid a differential rate to providers caring for children with special needs, and one additional state allowed localities the option of paying a differential rate for special needs care. These states varied in how they designed this differential rate, with some paying a certain percentage above the base rate for special needs care, some establishing a set rate for special needs care, and others negotiating the rate for special needs care on a case-by-case basis.<sup>26</sup> In New Jersey, the payment rate for center care for an infant with special needs is set at \$1,193 per month, compared to the standard payment rate for center care for an infant of \$994 per month.<sup>27</sup> Thirteen states paid differential rates for care during nontraditional hours, and one state allowed localities to pay differential rates for care during nontraditional hours, as of February 2018; New Jersey does not pay a differential rate for nontraditional-hour care.<sup>28</sup>

In addition to payment rates, other aspects of states’ payment policies can affect the overall income, and stability of income, that providers receive through the child care assistance program. These policies include whether the state covers enrollment and other fees (beyond the regular monthly fee) that a provider typically charges and whether the state pays for days when children are absent. The Child Care and Development Block Grant Act of 2014—which reauthorized the program—addressed these aspects of payment, requiring states to adopt payment policies that more closely resemble providers’ policies for parents who pay for care out of their own pocket, including payment for absent days. The CCDBG regulations indicate that states can meet the reauthorization law’s requirement on absent days by paying based on a child’s enrollment (paying for all scheduled days) rather than based on attendance; providing full payment if a child attends at least 85 percent of the authorized time; or providing full payment if a child is absent for five or fewer days in a month.<sup>29</sup> As of February 2018, approximately three-fifths of the states

(including New Jersey, which paid for absences equal to up to 20 percent of scheduled time) paid for a sufficient number of absent days to align with the options specified in these regulations, but the remaining two-fifths of the states did not.<sup>30</sup>

Some states are attempting to offer providers more generous and stable payment through the strategic use of contracts. While the vast majority of assistance to families under CCDBG is distributed through vouchers—where the funding follows the child to the family’s chosen child care provider—states can also use contracts, where the state enters into an agreement with a provider to offer a certain number of slots to families receiving child care assistance. The agreement may require the provider to meet higher quality standards in exchange for receiving a higher payment rate. By funding a specified number of slots, contracts can offer more stability to providers and the families they serve. And by requiring providers to meet certain quality standards in order to be allocated and retain slots, contracts can also offer a means of raising the quality of care.

Several states are initiating or expanding the use of CCDBG-funded contracts. Oregon is piloting the Baby Promise Initiative, which supports contracted slots for infant/toddler care.<sup>31</sup> Regional Early Learning Hubs develop community plans that identify populations and areas with the greatest unmet need for infant/toddler care, and child care resource and referral agencies recruit a range of providers—including home-based, center-based, Early Head Start, and other providers—to address the identified needs. Under the contract agreement between the state and the provider, the provider offers care to families eligible for child care assistance and meets certain quality standards, and the state pays the provider at a rate that covers the cost of high-quality care, including fair compensation for teachers. Initial funding for Baby Promise includes \$3.3 million in child care assistance and \$700,000 in quality supports through CCDBG.

Similarly, Pennsylvania is using \$2 million of its increased CCDBG funds to pilot contracting for slots for infants and toddlers receiving child care assistance.<sup>32</sup> Georgia is using \$22.5 million of its additional CCDBG funds to expand the number of its contracted slots through Quality Rated Subsidy Grants—which are available to two- and three-star providers in targeted counties—from 2,500 to 3,000, and to increase the payment rate for these providers from 35 percent to 50 percent above the base payment rate.<sup>33</sup>

#### *Questions for Future Research*

- *What is the cost of high-quality child care?*
- *How much additional funding is needed to close the gap between the current state payment rate and the cost of providing high-quality care?*
- *At what level should differential rates be set to cover the additional costs of offering certain types of care—including care for children with special needs and care during nontraditional hours—and to incentivize providers to offer this care?*

- *What additional funding is needed to support payment practices in the child care assistance program that more closely reflect practices in the private-pay market, including payment for absent days and coverage of supplemental fees?*
- *How can contracts best be designed to support stable infant/toddler care for families, encourage providers to improve the quality of infant/toddler care, and build the supply of infant/toddler care in underserved communities?*

### ***Addressing Gaps in the Supply of Infant/Toddler Care that Meets Families' Needs***

While CCDBG targets some funds toward increasing the supply and quality of infant/toddler care, additional funding will be required to sufficiently expand the availability of child care options and the size of the child care workforce to address the shortage of infant/toddler care. Currently, there are more than five infants and toddlers for every licensed child care slot in the country, with particularly acute shortages in rural areas and lower-income areas.<sup>34</sup> Despite this unmet need, the supply of licensed family child care—which many families rely on to care for their infants and toddlers—has actually been declining in recent years. The number of licensed family child care homes in the U.S. declined by more than 54,000 (35 percent) between 2011 and 2017.<sup>35</sup>

Expanding the availability of infant/toddler care will require building supply across the varied types of care used by families with very young children, including center care and licensed and license-exempt home-based care. Many families prefer home-based care for their infants and toddlers because it often offers children more one-on-one attention and parents more flexibility in meeting their needs. Infants are more likely to be in relative or home-based care than center care; in 2016, among the 4.7 million children under age one, 28 percent (1.3 million) were regularly in relative care, 14 percent (650,000) were regularly in nonrelative home-based care, and 12 percent (580,000) were regularly in center care.<sup>36</sup> Parents working nonstandard hours are particularly likely to turn to family child care or family, friend, and neighbor care as the best—or only—option to accommodate their work schedules. A national study found that 82 percent of unlisted unpaid home-based providers, 63 percent of unlisted paid home-based providers, and 34 percent of listed home-based providers caring for children under age six offered some care during nonstandard hours, compared to just 8 percent of center-based providers.<sup>37</sup> While some parents might choose more formal or center-based arrangements if they received the financial assistance needed to overcome any cost barriers, the supply of these types of care might not expand enough to meet the demand, and many parents might still prefer licensed or license-exempt family child care for their very young children.

Some states have used CCDBG funds to support home-based providers through strategies such as covering the costs of training and background checks required to participate in the child care assistance program; helping the providers navigate the child care assistance program's

administrative process; making training accessible by offering it in convenient locations as well as online, and in multiple languages; providing coaching to assist providers in meeting CCDBG standards and improving the quality of care they offer; and giving providers supplies and materials.<sup>38</sup> For example, Michigan funds coaches to conduct home visits following FFN providers' orientation training in health and safety to ensure the providers' understanding and compliance and to help connect providers to additional trainings and community resources; the state provided up to \$1.4 million for the first grant year of this project, which started in April 2018.<sup>39</sup> States could also consider funding local organizations that work with home-based providers, such as All Our Kin in Connecticut and the Colorado Statewide Parent Coalition, to provide training, coaching, and other supports to help providers improve the quality of care and to assist legally exempt home-based providers that want to become licensed to do so.<sup>40</sup>

A significant expansion of the supply of infant/toddler care will require an expansion of the child care workforce. Substantial new funding for child care, with a portion of those funds targeted at improving the supply and quality of infant/toddler care, would allow states to devote more resources to recruitment, education, professional development, ongoing coaching and mentoring, and increased salaries and benefits for teachers. This additional funding focused on the child care workforce would need to be supplemented with expanded investments for higher education programs and steps to ensure that students pursuing early childhood education degrees and credentials have access to these programs, including direct student financial assistance, loan forgiveness, loan cancellation, and other federal student financial aid benefits as well as educator preparation initiatives such as residency programs and clinical experience and interaction.

#### *Questions for Future Research*

- *What types of care meet the needs and preferences of parents with infants and toddlers?*
- *What incentives and supports would help expand the supply and quality of center care as well as licensed and license-exempt family child care, and what are the costs of these incentives and supports?*
- *What funding and policy changes are needed to support higher education and professional development to build the child care workforce?*
- *How much should compensation be increased to attract and retain more early educators, and what investments are needed to support this higher compensation?*

#### **Early Head Start**

Early Head Start, which provides comprehensive early care and education services for infants and toddlers, received approximately \$2.97 billion in federal funding in FY 2020.<sup>41</sup> Since FY 2014, the Head Start appropriation has included funding for Early Head Start Expansion and

Early Head Start-Child Care (EHS-CC) Partnerships, which support collaborations with center-based and family child care providers that agree to meet the Head Start Program Performance Standards and that receive funding and technical assistance from the Early Head Start program. The FY 2020 funding level will support approximately 150,700 Early Head Start slots, and an additional 37,600 EHS-CC Partnerships and EHS Expansion slots.<sup>42</sup> Despite the expansion, Early Head Start will still only serve about 9 percent of eligible infants and toddlers.<sup>43</sup>

EHS-CC Partnership slots are targeted toward areas of concentrated poverty and grantees that can blend Early Head Start and child care assistance funding to support full-day, full-year early care and education services. The partnership slots offer comprehensive services, including health, developmental, and behavioral screenings; health, safety, and nutritional services; and parent engagement opportunities. EHS-CC Partnership grantees and child care partners are required to meet the Head Start Program Performance Standards for children funded under the grant. These partnerships allow children to benefit from the high-quality standards and comprehensive services that Early Head Starts offers while providing the full-day, full-year services that their parents need to work or attend an education or training program.

A 2015 study found that slightly over half (52 percent) of partnership grantees were nonprofit, community-based organizations, community action agencies, or community action partnerships, while one-quarter were public agencies, such as schools, tribal governments, or other public entities.<sup>44</sup> Fifty-nine percent of grantees had partnerships with child care centers only; 32 percent had both child care center and family child care partners; and 7 percent had family child care partners only.<sup>45</sup>

The median annual EHS-CC Partnership annual grant amount was \$1.4 million per grantee, and \$7,875 per partnership slot.<sup>46</sup> Many grantees also received start-up funds to help cover initial costs, as well as additional funds for staff training and professional development and ongoing costs for materials, supplies, furniture, equipment, and other expenses. Over one-third (34 percent) of child care partners received funds from sources other than the grantee, such as the Child and Adult Care Food Program (CACFP) and/or CCDBG.<sup>47</sup>

The EHS-CC Partnership grants prompted more child care partners to offer comprehensive services. For example, the percentage of child care partners offering developmental and other screenings increased from 50 percent prior to the EHS-CC Partnership grants to 85 percent following the grants; the percentage of child care partners offering speech or physical therapy to any children increased from 34 percent to 67 percent; and the percentage of partners offering home visits increased from 23 percent to 88 percent.<sup>48</sup> The partnerships not only affected children in slots funded by the EHS-CC Partnership grants, but other children served by the child care partners as well; 70 percent of child care partners offered at least one service (such as screenings, referrals, or assessments) to infants and toddlers not funded through the grants.<sup>49</sup>

The EHS-CC Partnership grants give child care partners access to supports to help them improve their quality. For example, 71 percent of child care center partners received guidance from the grantee on implementing the Head Start Program Performance Standards, 86 percent of partners reported that the grantees provided coaching or one-on-one training, and nearly all grantees offered quality monitoring activities to child care partners and used information from these activities to provide staff training.<sup>50</sup>

In New Jersey, one EHS-CC Partnership is a collaboration in Camden between the Center for Family Services, El Centro Comunal Borincano Daycare, Mi Casita Child Development Center, and Respond, Inc. (a community organization that operates seven child care centers and offers a variety of other programs and services). This EHS-CCP offers full-day, full-year child care, including family child care.<sup>51</sup>

#### *Questions for Future Research*

- *How much additional funding would be needed to make Early Head Start available to all infants and toddlers eligible for the program and not currently being served?*
- *What additional supports and resources do child care programs need to meet and maintain the standards required to participate in an Early Head Start-Child Care Partnership?*

### **Early Intervention Program for Infants and Toddlers with Disabilities**

The Early Intervention Program for Infants and Toddlers with Disabilities (Part C under the Individuals with Disabilities Education Act) supports services for children from birth through age two and their families to improve child developmental outcomes. The program aims to identify and address developmental delays among infants and toddlers and provide support to the families of young children with development delays. Early intervention services are provided to infants and toddlers experiencing a developmental delay in one or more of five areas (physical development, cognitive development, communication development, social or emotional development, and adaptive development) or with a diagnosed physical or mental condition that has a high probability of resulting in developmental delay. States determine the level of developmental delay needed to be eligible for IDEA Part C services, and may define other eligibility criteria.<sup>52</sup>

IDEA Part C early intervention services are required to be provided, to the maximum extent appropriate, in settings that are considered natural environments, such as a child's home or a community setting where typically developing children are present; a multidisciplinary team that

includes the child's parent determines where services will be provided.<sup>53</sup> The large majority of children are served in the child's home (89.6 percent), with the remainder served in community-based settings (7.6 percent) or other settings such as hospitals, residential facilities, or clinics (2.8 percent).<sup>54</sup>

While states are required to make appropriate early intervention services available to all eligible children under age three with disabilities and their families, federal funding is not sufficient to meet this need.<sup>55</sup> A 2011 study found that, among 37 states reporting data, federal IDEA Part C funding accounted for an average of just 21 percent of the states' early intervention services funding.<sup>56</sup> Federal funding for IDEA Part C has grown slowly over the years, standing at just \$477 million in FY 2020.<sup>57</sup> Between 2008 and 2017, the percentage of infants and toddlers served by IDEA Part C increased only slightly, from 2.8 percent to 3.2 percent.<sup>58</sup> IDEA Part C can serve as an important supplement to CCDBG and Early Head Start, supporting the early intervention services that children in child care or Early Head Start programs may need. But it can only serve this role if sufficiently funded.

#### *Questions for Future Research*

- *How many infants and toddlers are not receiving services to appropriately identify and address their developmental delays and disabilities?*
- *What additional investments are required to ensure that early intervention services are provided to all infants and toddlers who need them?*

### **Child and Dependent Care Tax Credits**

The federal government and over half of the states offer child and dependent care tax credits that help defray child care costs. While these tax credits can help families to afford child care, they have a number of drawbacks as a strategy for financing child care. First, many of these tax credits are nonrefundable and thus provide little or no benefit to low-income families, who typically have little or no federal or state income tax liability. In addition, most tax credits only cover a small fraction of child care expenses. And unlike direct child care subsidies, tax credits are not available until the end of the year as a reimbursement—and therefore not very helpful to families living paycheck to paycheck who have to pay their child care bills as they come due. For all of these reasons, child and dependent care tax credits do little to improve the supply of child care or compensation for the child care workforce. Finally, these tax credits are generally not designed to enable families to access high-quality child care or to invest in improvements to the quality of child care.

The federal Child and Dependent Care Tax Credit (CDCTC) allows families to claim up to \$3,000 of their work-related child and dependent care expenses for one child or dependent, and

up to \$6,000 for two or more children or dependents. A family may claim a percentage of their eligible expenses based on a sliding scale that declines with income; that percentage ranges from 35 percent for a family with an adjusted gross income (AGI) below \$15,000 to 20 percent for a family with an AGI of \$43,000 or more. Yet, in practice, low- and moderate-income families receive a smaller share of tax benefits from the CDCTC than higher-income families—likely because the tax credit is nonrefundable.<sup>59</sup>

Twenty-eight states (including the District of Columbia) have child and dependent care tax provisions, most of which are based in some way on the federal credit. Yet, only 14 of these states offer refundable credits.<sup>60</sup> New Jersey has a nonrefundable Child and Dependent Care Credit that took effect starting in tax year 2018; the credit is calculated as a percentage of the federal CDCTC (with the percentage ranging from 50 percent for families with AGIs of \$20,000 or less to 10 percent for families with incomes from \$50,001 to \$60,000), with a maximum value of \$500 for one child or dependent and \$1,000 for two or more children or dependents—although, since the tax credit is nonrefundable, few families in the income range to be eligible for the maximum value can actually receive it.<sup>61</sup>

#### *Questions for Future Research*

- *Can child and dependent care tax credits be expanded and strengthened so that they are more effective in assisting low- and moderate-income families with their child care costs (including out-of-pocket payments not covered by a direct subsidy)?*
- *How can child and dependent care tax credits be designed so that they reach and offer substantial help to those families who need assistance but are not able to receive direct child care subsidies?*

#### **State and Local Infant/Toddler Initiatives**

Only a few states and localities make significant investments in their own initiatives to support infant/toddler care. The states and localities that have invested in infant/toddler care have done so through strategies such as establishing a set-aside for infant/toddler services within their preschool programs or by establishing new taxes with a portion dedicated to infant/toddler services. States and localities can turn to various revenue sources—such as corporate taxes, estate taxes, personal income taxes, property taxes, and sales taxes—to support infant/toddler care. As states and localities weigh which of these revenue sources to pursue, they should consider which are most politically feasible, progressive, and sustainable.<sup>62</sup>

While 44 states and the District of Columbia fund preschool programs, these programs primarily serve four-year-olds, and a much smaller number of three-year-olds—and generally do not serve

any children under age three. However, Illinois funds its preschool program through an Early Childhood Block Grant that includes a set-aside for infant/toddler care. This set-aside supports the state's Prevention Initiative, which provides competitive grants to eligible applicants—including public school districts, university laboratory schools, charter schools, area vocational centers, nonprofit organizations, and for-profit entities—for research-based, comprehensive, and intensive prevention services to expecting parents and families with children birth to age three who are at risk of academic challenges. The initiative supports a range of program models; the large majority of children and families participating in the initiative receive home visiting services through models such as Parents As Teachers, with just 3 percent of children receiving center-based services.<sup>63</sup> Illinois' Early Childhood Prevention Initiative served over 15,000 infants and toddlers in FY 2019.<sup>64</sup>

Arizona's early childhood program serves three- and four-year-olds as well as children under age three. The state, using tobacco tax revenues raised through a voter-approved measure, provides funds to communities for early childhood programs. Communities can use these funds for a variety of purposes, including Quality First Scholarships that allow children birth through age five in families with incomes at or below 200 percent of poverty to participate in early childhood programs.<sup>65</sup> Quality First Scholarships were provided to 5,256 children ages three and four,<sup>66</sup> as well as 2,539 infants and toddlers (2,392 in center-based settings and 147 in home-based settings) in the 2017-2018 program year.<sup>67</sup> In 2017-2018, spending for Quality First Scholarships totaled over \$38 million, of which over \$16 million was used for services for infants and toddlers.<sup>68</sup> However, tobacco tax revenues have been an unreliable funding source due to declining smoking rates—and as revenues from the tax have declined over the past decade, so has funding for this birth-to-five program.<sup>69</sup>

Oregon is funding early care and education initiatives with a corporate activity tax. The state legislature passed the tax (\$250 plus 0.57 percent of the taxable commercial activity that exceeds \$1 million in the calendar year) in 2019, with 20 percent of the revenue allocated to programs serving infants, toddlers, and preschoolers. For 2020-2021, it is estimated this will generate \$170 million for early care and education efforts such as early intervention, an Early Learning Equity Fund for traditionally underserved populations, the state prekindergarten program, Early Head Start, parenting engagement, and workforce development.<sup>70</sup> The remaining 80 percent of the revenues from the tax will be distributed primarily to local school districts, career technical education, and K-12 quality improvement. Meanwhile, in King County, Washington, a property tax (\$14 per \$100,000 assessed value until 2021) that was adopted in 2015 is raising \$35 million annually for comprehensive child development services for pregnant women and children up to age five, including home-based visits, referrals to health care, and trauma care training for child care staff.<sup>71</sup>

### *Questions for Future Research*

- *Which state and local revenue sources will provide sufficient and stable funding to support high-quality infant/toddler care?*
- *How can state and local tax strategies for supporting infant/toddler care be designed to ensure that they are progressive?*
- *What steps must be taken to build public and legislative support for raising revenues for infant/toddler care?*

### **Conclusion**

The current financing system for infant/toddler care is not working: it not making infant/toddler care affordable enough for parents, it does not sufficiently support high-quality infant/toddler care, and it does not support adequate compensation for the teachers who care for and educate infants and toddlers. Ensuring families with young children have access to affordable, high-quality infant/toddler care will require a substantial infusion of new funding from federal, state, and local sources; a financing mechanism—or multiple financing mechanisms that are coordinated and complementary—to reliably deliver the funds to families and child care providers; and a financing strategy that reaches the varied types of care that meet families' diverse needs.

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<sup>2</sup> National Survey of Early Care and Education Project Team, *Number and Characteristics of Early Care and Education (ECE) Teachers and Caregivers: Initial Findings from the National Survey of Early Care and Education (NSECE)* (OPRE Report #2013-38) (Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services, 2013), 11-12, available at [https://www.acf.hhs.gov/sites/default/files/opre/nsece\\_wf\\_brief\\_102913\\_0.pdf](https://www.acf.hhs.gov/sites/default/files/opre/nsece_wf_brief_102913_0.pdf).

<sup>3</sup> Rasheed Malik, *Working Families Are Spending Big Money on Child Care* (Washington, DC: Center for American Progress, 2019), 6, available at <https://cdn.americanprogress.org/content/uploads/2019/06/19074131/Working-Families-SpendingBRIEF.pdf>.

<sup>4</sup> Yang Jiang, Maribel R. Granja, and Heather Koball, *Basic Facts about Low-Income Children: Children under 3 Years, 2015* (New York, NY: National Center for Children in Poverty, 2017), available at [http://www.nccp.org/publications/pub\\_1171.html](http://www.nccp.org/publications/pub_1171.html).

<sup>5</sup> Karen Schulman, Jasmine Tucker, and Julie Vogtman, *Nearly One in Five Working Mothers of Very Young Children Work in Low-Wage Jobs* (Washington, DC: National Women's Law Center, 2017), available at <https://nwlc.org/resources/nearly-one-five-working-mothers-very-young-children-work-low-wage-jobs/>.

<sup>6</sup> U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Care, *FY 2018 Preliminary Data Table 9 - Average Monthly Percentages of Children in Care by Age Group*, available at <https://www.acf.hhs.gov/occ/resource/fy-2018-preliminary-data-table-9>.

<sup>7</sup> New Jersey Department of Human Services, *Child Care and Development Fund (CCDF) Plan for New Jersey FFY 2019-2021*, 342-346, available at [http://www.childcarenj.gov/getattachment/Resources/Reports/Child-Care-and-Development-Fund-\(CCDF\)-Plan-for-NJ-FFY-2019-2021.pdf?lang=en-US](http://www.childcarenj.gov/getattachment/Resources/Reports/Child-Care-and-Development-Fund-(CCDF)-Plan-for-NJ-FFY-2019-2021.pdf?lang=en-US).

<sup>8</sup> This amount includes \$5.226 billion in discretionary funding and \$2.917 billion in mandatory (entitlement) funding. Consolidated Appropriations Act, 2018, H.R. 1625, 115th Cong. 381-382 (2018) (enacted); Office of Management and Budget, Appendix, Budget of the U.S. Government, Fiscal Year 2019 (2018), 464, available at <https://www.whitehouse.gov/wp-content/uploads/2018/02/appendix-fy2019.pdf>.

<sup>9</sup> This amount includes \$5.276 billion in discretionary funding and \$2.917 billion in mandatory (entitlement) funding. U.S. Department of Health and Human Services, Administration for Children and Families FY 2020 Justification of Estimates for Appropriations Committees (Washington, DC: U.S. Department of Health and Human Services, 2019), 75, available at [https://www.acf.hhs.gov/sites/default/files/olab/acf\\_congressional\\_budget\\_justification\\_2020.pdf](https://www.acf.hhs.gov/sites/default/files/olab/acf_congressional_budget_justification_2020.pdf).

<sup>10</sup> This amount includes \$5.826 billion in discretionary funding and \$2.917 billion in mandatory (entitlement) funding. Further Consolidated Appropriations Act, 2020, H.R. 1865, 116th Cong. 38 (2019) (enacted), available at <https://www.congress.gov/116/bills/hr1865/BILLS-116hr1865enr.pdf>; U.S. Department of Health and Human Services, *Fiscal Year 2021 Budget in Brief* (Washington, DC: U.S. Department of Health and Human Services, 2020), 146, available at <https://www.hhs.gov/sites/default/files/fy-2021-budget-in-brief.pdf>.

<sup>11</sup> U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Care, *FY 2019 CCDF Allocations (Based on Appropriations)* (2019), available at <https://www.acf.hhs.gov/occ/resource/fy-2019-ccdf-allocations-based-on-appropriations>.

<sup>12</sup> Total federal child care funding in FY 2020, including \$8.743 billion in CCDBG funding and \$3.217 billion in TANF funding for child care (assuming the use of TANF funds was the same as the inflation-adjusted amount in FY 2018, the most recent year for which data are available), was \$11.960 billion. TANF funding in FY 2018 includes \$1.498 billion transferred to CCDBG and \$1.547 billion spent directly on child care (including both that categorized as “assistance” and “non-assistance”). National Women’s Law Center analysis of data from U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, *Fiscal Year 2018 TANF Financial Data, Table A.1.: Federal TANF and State MOE Expenditures Summary by ACF-196 Spending Category, FY 2018*, available at <https://www.acf.hhs.gov/ofa/resource/tanf-financial-data-fy-2018>. In FY 2001, CCDBG funding was \$4.567 billion (\$7.094 billion in FY 2020 dollars) and TANF funding used for child care was \$3.541 billion (\$5.501 billion in FY 2020 dollars), for a total of \$8.108 billion (\$12.595 billion in FY 2020 dollars). The CCDBG funding amount includes \$2.0 billion in discretionary funding and \$2.567 billion in mandatory (entitlement) funding. U.S. Department of Health and Human Services, *FY 2002 President’s Budget for HHS* (Washington, DC: U.S. Department of Health and Human Services, 2001), 89-90, available at

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<https://www.hhs.gov/about/agencies/asfr/budget/budgets-in-brief-performance-reports/index.html>. The TANF funding amount includes \$1.899 billion transferred to CCDBG, \$285 million spent on child care categorized as “assistance,” and \$1.357 billion spent on child care categorized as “non-assistance.” National Women’s Law Center analysis of data from U.S. Department of Health and Human Services, Administration for Children and Families, Fiscal Year 2001 TANF Financial Data, Table A. Combined Federal Funds Spent in FY 2001 Through the Fourth Quarter, *retrieved from* [http://archive.acf.hhs.gov/programs/ofs/data/tanf\\_2001.html](http://archive.acf.hhs.gov/programs/ofs/data/tanf_2001.html). CCDBG and TANF amounts in FY 2020 dollars calculated by National Women’s Law Center using Congressional Budget Office, The Budget and Economic Outlook report series; figures are adjusted for inflation using the average of the Consumer Price Index and the Employment Cost Index.

<sup>13</sup> Nina Chien, Factsheet: Estimates of Child Care Eligibility and Receipt for Fiscal Year 2016 (Washington, DC: U.S. Department of Health and Human Services, Office of Human Services Policy, Office of the Assistant Secretary for Planning and Evaluation, 2019), *available at* <https://aspe.hhs.gov/system/files/pdf/262926/CY2016-Child-Care-Subsidy-Eligibility.pdf>.

<sup>14</sup> Estimates of Child Care Eligibility and Receipt for Fiscal Year 2016.

<sup>15</sup> Estimates of Child Care Eligibility and Receipt for Fiscal Year 2016.

<sup>16</sup> Karen Schulman, Early Progress: State Child Care Assistance Policies 2019 (Washington, DC: National Women’s Law Center, 2019), 8, *available at* <https://nwlc.org/resources/early-progress-state-child-care-assistance-policies-2019/>.

<sup>17</sup> Early Progress, 8 and 29.

<sup>18</sup> Early Progress, 9.

<sup>19</sup> Child Care for Working Families Act, S. 568, 116th Cong. (2019).

<sup>20</sup> Early Progress, 11.

<sup>21</sup> Early Progress, 12.

<sup>22</sup> National Women’s Law Center calculations based on State of New Jersey, Department of Human Services, Maximum Child Care Payment Rates (Effective January 2020), *available at* <http://www.childcarenj.gov/getattachment/Resources/Reports/CCMaxPaymentRates1-5-20.pdf?lang=en-US>; Jeounghee Kim and Myungkook Joo, 2017 New Jersey Child Care Market Price Study (Final Report Submitted to New Jersey Department of Human Services, Division of Family Development) (New Brunswick, NJ: Rutgers School of Social Work, 2018), *available at* <http://www.childcarenj.gov/getattachment/Resources/Reports-and-Statistics/2017-New-Jersey-Child-Care-Market-Price-Study-pdf.pdf.aspx?lang=en-US>.

<sup>23</sup> Karen Schulman, Still Shortchanging Our Youngest Children: State Payment Rates for Infant Care 2018 (Washington, DC: National Women’s Law Center, 2019), 2, *available at* <https://nwlc.org/resources/still-shortchanging-our-youngest-children-state-payment-rates-for-infant-care-2018/>.

<sup>24</sup> National Women’s Law Center analysis of State of New Jersey, Department of Human Services, Maximum Child Care Payment Rates (Effective January 2020); 2017 New Jersey Child Care Market Price Study.

<sup>25</sup> Karen Schulman, The Child Care and Development Block Grant Act of 2014: Update on State Implementation of Key Policies (Washington, DC: National Women’s Law Center, 2019), 2, *available at* <https://nwlc-ciw49tixgw5lbab.stackpathdns.com/wp-content/uploads/2019/03/NWLC-update-on-state-implementation-of-CCDBG-reauthorization-final.pdf>.

<sup>26</sup> The Child Care and Development Block Grant Act of 2014: Update on State Implementation of Key Policies, 16-17.

<sup>27</sup> State of New Jersey, Department of Human Services, Maximum Child Care Payment Rates (Effective January 2020).

<sup>28</sup> The Child Care and Development Block Grant Act of 2014: Update on State Implementation of Key Policies, 16-17.

<sup>29</sup> Child Care and Development Fund (CCDF) Program, 81 Fed. Reg. 67587 (September 30, 2016), *available at* <https://www.federalregister.gov/documents/2016/09/30/2016-22986/child-care-and-development-fund-program>. Under the regulations, states can also use an alternative approach on paying for absent days that the state justifies in the plan it must submit every three years detailing how it will carry out its child care assistance program.

<sup>30</sup> The Child Care and Development Block Grant Act of 2014: Update on State Implementation of Key Policies, 11-14.

<sup>31</sup> Oregon Department of Education, Early Learning Division, Baby Promise: Addressing Oregon’s Crisis in Access to Affordable, High-Quality Infant and Toddler Care (July 2019), *available at* [https://www.occ-cmc.org/stam2019/pdfs/C-4\\_Supporting\\_the\\_Most\\_Vulnerable\\_Oregon.pdf](https://www.occ-cmc.org/stam2019/pdfs/C-4_Supporting_the_Most_Vulnerable_Oregon.pdf).

<sup>32</sup> National Women’s Law Center, States Use New Child Care and Development Block Grant Funds to Help Children and Families: Update (2019), 9, *available at* <https://nwlc-ciw49tixgw5lbab.stackpathdns.com/wp->

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<sup>33</sup> Alex Camardelle, Georgia's Boost in Child Care Funding (Atlanta, GA: Georgia Budget and Policy Institute, 2019), available at <https://gbpi.org/2019/georgias-boost-in-child-care-funding/>.

<sup>34</sup> Steven Jessen-Howard, Rasheed Malik, Simon Workman, and Katie Hamm, Understanding Infant and Toddler Child Care Deserts (Washington, DC: Center for American Progress, 2018), available at <https://www.americanprogress.org/issues/early-childhood/reports/2018/10/31/460128/understanding-infant-toddler-child-care-deserts/>.

<sup>35</sup> National Center on Early Childhood Quality Assurance, Addressing the Decreasing Number of Family Child Care Providers in the United States (Fairfax, VA: U.S. Department of Health and Human Services, Administration for Children and Families, 2019), 2-3, available at <https://www.researchconnections.org/childcare/resources/37075/pdf>.

<sup>36</sup> National Women's Law Center calculations based on data from Lisa Corcoran and Katrina Steinley, Early Childhood Program Participation, Results from the National Household Education Surveys Program of 2016 (NCES 2017-101) (Washington, DC: U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, 2017), 6 and 10, available at <https://nces.ed.gov/pubs2017/2017101REV.pdf>.

<sup>37</sup> National Survey of Early Care and Education Project Team, Fact Sheet: Provision of Early Care and Education During Non-Standard Hours (OPRE Report #2015-44) (Washington, DC: U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, 2015), available at [https://www.acf.hhs.gov/sites/default/files/opre/factsheet\\_nonstandard\\_hours\\_provision\\_of\\_early\\_care\\_and\\_education\\_during\\_non\\_standard\\_hours.pdf](https://www.acf.hhs.gov/sites/default/files/opre/factsheet_nonstandard_hours_provision_of_early_care_and_education_during_non_standard_hours.pdf). Listed providers are those that appear on state or national lists of early care and education providers, such as lists of licensed, regulated, or registered providers or providers serving children receiving child care assistance. Unlisted providers are those that do not appear on any such state or national lists.

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<sup>39</sup> Helping Family, Friend, and Neighbor Care Providers Meet New Requirements Under the Child Care and Development Block Grant Reauthorization Law, 6.

<sup>40</sup> National Women's Law Center, Strategies for Supporting Family, Friend, and Neighbor Care Providers (2016), available at [https://nwlc.org/wp-content/uploads/2016/01/nwlc\\_BriefReport.pdf](https://nwlc.org/wp-content/uploads/2016/01/nwlc_BriefReport.pdf).

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<sup>42</sup> Administration for Children and Families FY 2021 Justification of Estimates for Appropriations Committees, 126.

<sup>43</sup> National Women's Law Center calculations based on data on Early Head Start funded slots in FY 2020 from Administration for Children and Families FY 2021 Justification of Estimates for Appropriations Committees, 126; data on the number of children under age three in poverty from U.S. Census Bureau, Current Population Survey, 2019 Annual Social and Economic Supplement, Detailed Poverty Tables, POV34. Single Year of Age-Poverty Status: 2018, available at <https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-pov/pov-34.html>.

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<sup>45</sup> Findings from the National Descriptive Study of Early Head Start-Child Care Partnerships, 15.

<sup>46</sup> Findings from the National Descriptive Study of Early Head Start-Child Care Partnerships, 47.

<sup>47</sup> Findings from the National Descriptive Study of Early Head Start-Child Care Partnerships, 53.

<sup>48</sup> Findings from the National Descriptive Study of Early Head Start-Child Care Partnerships, 69-70.

<sup>49</sup> Findings from the National Descriptive Study of Early Head Start-Child Care Partnerships, 75.

<sup>50</sup> Findings from the National Descriptive Study of Early Head Start-Child Care Partnerships, 81-93.

<sup>51</sup> Center for Family Services, Early Head Start/Child Care Partnership, available at <https://www.centerffs.org/earlyheadstart>.

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