



FINANCING MICHIGAN'S EARLY CHILDHOOD SYSTEM

State Strategies for Enduring Funding to Support Access to Early Care and Education

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Introduction

High-quality child care that is affordable and easily accessible is essential for parental employment, yet child care remains one of the most costly services families face. As noted in a Michigan State University study, workforce participation drops by 2-3% for every mile between a family and a licensed provider and child care disruptions cost Michigan approximately \$2.8 billion a year (Reaves et al, 2025). To expand families' access to quality and affordable child care requires significant public investment.

Currently, Michigan lacks a dedicated, stable state revenue stream to support early care and education (ECE). Instead, the ECE system relies on federal, state, and local funds that are subject to annual appropriations and shifting political and economic priorities. In comparison, several other states have established dedicated revenue sources such as endowments, trust funds, and targeted tax initiatives that guarantee investments in ECE. However, these strategies offer Michigan models for designing and implementing a new and sustainable financing structure for ECE services for young children and their families, as well as the workforce that supports them (Build Initiative, 2019; Smith & Reef, 2025).





MICHIGAN LANDSCAPE

Publicly funded preK is available to income-eligible families through the Great Start Readiness Program (GSRP) or Head Start. In 20 of Michigan's 83 counties, at least 90% of eligible children are served by these programs (Wu et al, 2025). However, despite recent gains in reach, many children are still unserved across the state.

Michigan has no constitutional or statutory mechanism that automatically channels revenues into ECE as it does for K-12. Instead, funding decisions for ECE are made annually and must compete against K-12 education, health care, and other state priorities (Build Initiative, 2019). This annual "competition" makes it difficult for programs to plan for long-term workforce investments, program quality improvements, and the infrastructure necessary to sustain ECE services.

Community-by-community dedicated funding strategies can be valuable and provide local benefits. For instance, local levies in Cincinnati, Seattle, and Michigan's own Kent County demonstrate that property and sales taxes can successfully sustain ECE initiatives. However, local initiatives leave the ECE system vulnerable and inconsistently funded. This underscores the need for state-level investments and stable, long-term revenue streams to support Michigan's children, families, and ECE workforce. Although corporate contributions and state endowments models may require more effort to implement through legislation, and may require strong oversight to ensure that revenues are equitably distributed and aligned with long-term state goals, they offer the greatest stability and highest return on investment (Smith & Reef, 2025)

DEDICATED REVENUE MODELS FOR EARLY CHILDHOOD

Across the country at least 25 states plus the District of Colombia have already addressed the need for greater ECE funding stability. States have adopted a variety of funding mechanisms to stabilize high-quality early childhood financing, ranging from endowments and permanent funds to various state and local tax revenues. Among the funding mechanisms are several areas of taxation such as business and corporate tax, personal income tax, property tax, sales tax, excise or "sin" taxes (e.g., tobacco and cannabis), estates and inheritance tax, wealth and capital gains tax, and special district government taxes (Build Initiative, 2019). Other forms of dedicated funds range from establishing trust and endowment funds to appropriations of state lottery, gambling, sports betting, gaming, and casino revenues (Build Initiative, 2018; Alliance for Early Success, 2025; Smith & Reef, 2025).

The use of a variety of funding mechanisms demonstrates that there is no single pathway to securing stable ECE funding in Michigan. These funding mechanisms often exist outside of the annual appropriations process and are sometimes the result of sustained advocacy and coalition-building efforts. Models from New Mexico, Connecticut, and Nebraska demonstrate concrete lessons in scope, governance, and risk management. For Michigan, adopting one or more of these approaches could help secure long-term investments in the early childhood workforce, increase the number of infant-toddler slots, deliver fair wages

¹ Eligibility for GSRP was raised to 300% of the federal poverty level (FPL) in 2025. Eligibility for Head Start is 100% of the FPL.



and benefits for the ECE workforce, and strengthen quality improvement infrastructure (BUILD Initiative, 2019; Alliance for Early Success, 2023, Smith & Reef, 2025).

- Connecticut created a \$300 million Early Childhood Endowment with statutory limits on annual draws of 10-12% to protect the fund's long-term viability (Smith & Reef, 2025).
- New Mexico created the Department of Early Childhood Education and Care that oversees the funds distributed through the Early Childhood Education and Care Fund which generated \$95 million in fiscal year 2025 and the Land Grant Permanent Fund investment of 1.25% which is estimated to generate \$150 million annually for ECE.
- Oregon dedicates a portion of its corporate activity tax to early care and education, ensuring a broad and relatively stable revenue base.
- California's Prop 10 tobacco tax and Colorado's Prop EE nicotine tax illustrate how excise ("sin") taxes can initially generate substantial revenues, however they are also vulnerable to long-term declines in consumption (Build Initiative, 2019; Alliance for Early Success, 2023).

Across these models, states embed governance protections, such as constitutional mandates or statutory caps (e.g., New Mexico's constitutional amendment) to prevent the diversion of funds as well as targeting revenues toward common priorities. Common priorities include expansion of access to high quality ECE, workforce development, wage parity with K-12 educators, expansion in infant-toddler slots and affordability measures.

NEW MEXICO: A NATIONAL LEADER IN EARLY CHILDHOOD EDUCATION

Over the past five years, New Mexico has reshaped its early childhood system through major investments, a new state agency, and sustainable financing mechanisms. The [Early Childhood Education and Care Department](#), launched in 2020, oversees expanded programs and services for families and the child care workforce. In the same year, New Mexico passed the [Early Childhood Education Care Fund](#) with an initial \$300 million, financed through surplus revenues from the federal Mineral Leasing Act, extraction taxes, and oil and gas payments with early distributions of \$20 million in 2021 and \$30 million in 2022 (New Mexico Investment Council, nd), to \$95 million in 2025 (New Mexico Early Childhood Education and Care Department, 2024), and an expected \$202 million in fiscal year 2026, while maintaining long term sustainability (New Mexico Early Childhood Education and Care Department, n.d.). These funds support child care assistance, state-funded universal PreK, maternal and infant health, home visiting, and quality improvements.

Additionally, in 2022, voters approved a [constitutional amendment](#) to direct 1.25% of the five-year average market value of the state's [Land Grant Permanent Fund](#) to early childhood (60%) and public education (40%), which generates around \$150 million annually for early childhood programs (Ballotpedia, 2022; New Mexico Early Childhood Education and Department, 2024; Hsu, 2023; Smith and Reef, 2025). New Mexico also added the [Child Care Facility Loan Fund](#), which offers low-interest, long-term loans for health, safety and improvements for eligible providers including those operating in child deserts and those offering nontraditional hours to increase child care supply in underserved communities.



Due to its efforts in combining permanent endowments, constitutional funding streams, and targeted loan programs, New Mexico became the first state in the nation to offer free universal child care for all resident families regardless of income, saving New Mexico families an estimated average of 12,000 a year (New Mexico Early Childhood Education and Care Department, n.d.).

TABLE 1. SELECT STATE SAMPLES OF DEDICATED FUNDING APPROACHES FOR ECE

FUNDING REVENUE AND STATES	EXAMPLE DESCRIPTIONS
Endowment, Fund, or Trust Connecticut, Nebraska, Montana, District of Columbia, New Mexico	<p>Connecticut created the Early Childhood Education Endowment Fund 2025 to support ECE expansion costs, programmatic costs, admin costs, health insurance for workforce. It begins with \$300 million from state budget surplus with statutory limits on drawdowns and will grow through investment. In 2025, up to \$36 million may be spent on early childhood programs. An advisory board including a House member, a Senate member, and an Office of Early Childhood Commissioner, oversee the use of funds (Connecticut Office of Early Childhood, 2025).</p> <p>New Mexico established in 2020 the Early Childhood Education and Care Fund starting with \$300 million from surplus oil and gas revenues and is overseen by the State Investment Council similar to other state funds. It generated \$20 million in 2021, \$30 million in 2022 and \$95 million in 2025 (New Mexico Early Childhood Education and Care Department, n.d.) In 2022, New Mexico passed Constitutional Amendment 1, Land Grant Permanent Fund Distribution for Early childhood Education Amendment which allocates 1.25% of its Land Grant Permanent Fund (New Mexico State Investment Council, n.d.) to early care and education, generating over \$150 million annually (Alliance for Early Success, 2023).</p> <p>Nebraska's Sixpence Early Childhood Education Endowment was established with \$20 million from private investment and matched with \$40 million in state funds. Only interest drawn on the endowment can be spent toward Sixpence programs. In 2024, the endowment generated \$10.1 million for 47 Sixpence early childhood programs, with a focus on infants and toddlers (Nebraska Children and Families Foundation, 2022-2024).</p> <p>Montana enacted HB924 in 2025, establishing the Growth and Opportunities (GO Trust) to support economic development and infrastructure such as water systems and local bridges. Within this fund lawmakers created a dedicated Early Childhood State Special Revenue Account that will grow annually with 10% of the interest generated by the GO Trust and was initially funded with \$10 million (Montana Legislative Branch, 2025).</p>
Tobacco, Nicotine, or Cigarette Tax Arizona, California, Colorado, Oregon, Kentucky, Missouri, Connecticut, Kansas, Tennessee	<p>California passed Proposition 10, the California Children and Families Act of 1998, which increased tax on tobacco products to support First 5 California programs supporting child health, parent education, childcare and other services for children prenatal through age 5. Tax revenues are projected to reach around \$300 million in fiscal years 2024-2025 (First 5 California, 2024).</p> <p>Colorado passed in 2020 and 2023 Measure EE and Proposition 2, the Tobacco and Nicotine Product Tax Revenue Measure to fund universal preschool program estimated to generate \$24 million per year (Smith & Reef, 2025).</p> <p>Kansas established the Children's Initiatives Fund in 1999 to support early childhood programs funded through the use of Tobacco Master Settlement Agreement which supported 11 early childhood programs related to child, maternal, and family health and development and generated \$57.4 million in fiscal year 2024 (Kansas Children's Cabinet & Trust Fund, 2024).</p>



FUNDING REVENUE AND STATES	EXAMPLE DESCRIPTIONS
Cannabis, Marijuana Tax Arkansas, Louisiana	<p>Arkansas created the Food Insecurity Fund which uses revenue from medical marijuana taxes to cover \$14 million cost of providing free breakfast for all of the state’s public-school students.</p> <p>Louisiana passed legislature to add a 15% sales tax on cannabis products and dedicates 20% of that annually to the Louisiana Early Childhood Education fund (Louisiana Legislature, 2023).</p>
Lottery, Casino, Sports Betting, Gaming Revenues Maryland, Ohio, Georgia, North Carolina, Oregon, Louisiana	<p>Ohio, under H.B. 33 135th G.A., funding from excess casino revenue (beyond required taxes and fees) shifted in fiscal year 2024 from the Department of Jobs and Family Services to the Department of Children and Youth, with an appropriation of \$20 million in fiscal year 2023 to support early childhood education and the state-funded Step Up to Quality ECE programs(Legislative Service Commission, 2023).</p> <p>Georgia uses 25% of lottery revenues toward Hope Scholarship for higher Education and Georgia’s PreK program exceeding \$5 billion and supporting attendance of 1.6 million four-year-olds in the state funded PreK program.</p> <p>Oregon’s Child Care Infrastructure Fund was established with \$50 million in lottery bonds to expand and strengthen child care facilities across the state. Managed by Business Oregon in partnership with the Department of Early Learning and Care, the fund has provided \$30 million in grants in fiscal years 2024-2025.</p>
Sales Tax South Carolina	<p>South Carolina funds early care and education through a dedicated 1% sales tax established in 1984. This revenue, which generates about \$15 million annually, supports free early education for at-risk four-year-olds, with roughly 25% of school districts offering classes for lower-income families. In 2021, the state dedicated more than \$50 million from sales tax funds to further expand PreK services (Institute for Child Success 2015; Build Initiative, 2019).</p>
Personal Income Tax or Payroll Tax Rhode Island, Vermont, Massachusetts	<p>Massachusetts funds the Commonwealth Cares for Children (C3) grant program through a mix of state revenues after federal COVID relief funds expired, including a 4% surtax on income over \$1 million (projected \$278M in fiscal year 2025), the High-Quality Early Education and Care Trust Fund (about \$490M from surplus revenues), and revenue from a new online lottery (estimated \$75–\$100M annually). These monthly grants support licensed child care providers by covering staff compensation, professional development, quality improvements, and facility costs (Massachusetts Taxpayers Foundation, 2025).</p>
Property Tax Texas, Florida, Colorado	<p>Texas voters approved Proposition 2 in 2023, a constitutional amendment allowing counties and municipalities to grant at least a 50% property tax exemption for licensed child care facilities in the Texas Rising Star Program, provided at least 20% of enrolled children receive subsidies or scholarships. The measure, which excludes home-based care, aims to reduce financial pressures on providers and took effect in January 2024.</p>
Corporate and Business Tax Oregon	<p>Oregon earmarks 20% of its Corporate Activity Tax revenues (around \$200 million annually) for ECE expansion and infrastructure (Alliance for Early Success, 2023).</p>
Birth and Death Certificate Fees Nevada	<p>Nevada passed The Children’s Trust Fund to dedicate birth and death certificate fees to support programs for prevention of child abuse and neglect with annual distributions of \$1.5 million (NV Department of Human Services, n.d).</p>



FUNDING REVENUE AND STATES	EXAMPLE DESCRIPTIONS
Local Revenue - Special Fund, Budget Appropriation District of Columbia	Washington, D.C. established the DC Early Childhood Educator Pay Equity Fund —a first in the nation—to bring early educators’ salaries in line with K–12 teachers. Created in 2021, it initially provided direct cash supplements to educators, distributing over \$80 million to 4,000+ educators in fiscal years 2022–2023. Beginning in fiscal year 2024, funding shifted to licensed child development facilities, which now receive quarterly payments to raise staff wages according to the Office of the State Superintendent of Education in Washington, D.C.-established salary minimums. The program continues to evolve through task force recommendations and DC Council actions to ensure sustainability through fiscal year 2028 and beyond (Office of the State Superintendent of Education, n.d.)

CONCLUSION AND RECOMMENDATIONS

Michigan has an opportunity to strengthen and stabilize its ECE system by adopting one or more dedicated revenue streams. Lessons from other states suggest that a diversified strategy – such as pairing a trust fund with an earmarked excise or business tax – would maximize stability and minimize risk.

For Michigan, personal or business income taxes, sales tax and excise taxes on cannabis, casinos or other “sin taxes” are all viable sources. Importantly, the appropriate strategy and mix of investment revenue must be guided by a clear understanding of Michigan’s financial needs. This brief did not attempt to quantify that need (for instance the costs of achieving workforce wage parity, funding universal preschool, and expanding infant-toddler slots), however a careful estimate of the annual revenue demands will be needed to align any funding mechanism with the scale of the investment that will be required.

When developing new funding sources, Michigan should consider the following, based on the state’s current needs:

- **Prioritize investments** in infant-toddler slot increases, publicly-funded preschool expansion, and ECE workforce wage parity with K-12 educators.
- **Quantify annual revenue needs** tied to these priorities so that funding sources can be aligned with actual costs. In 2023, Think Babies Michigan estimated that Michigan required \$3.5 billion to fund the true cost of quality child care.
- **Embed statutory protections** into the funding mechanisms to prevent diversions of funding or fluctuations in funding due to political and economic changes.
- **Communicate return on investment** clearly, emphasizing benefits to family economic security and well-being, child health and development, and general workforce stability.
- **Ensure strong oversight** by establishing an independent advisory body or governance structure. Models include Nebraska’s early childhood advisor council and New Mexico’s dedicated Early Childhood Education and Care Department, which could inform a Michigan-specific approach.



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