



GIVING CREDIT WHERE IT'S DUE

School Readiness Tax Credits Benefit
Louisiana Families and Communities

Giving Credit Where It's Due: School Readiness Tax Credits Benefit Louisiana Families and Communities

October 2016

Acknowledgements

This report was developed by Louise Stoney, Co-Founder of the Alliance for Early Childhood Finance and the Opportunities Exchange, in collaboration with Melanie Bronfin, JD, Executive Director of the Louisiana Policy Institute for Children, and Monica Candal Rahim, PhD, Principal at Education Research Solutions. The authors thank the Louisiana Department of Education and Louisiana Department of Revenue for their assistance with data and Trace Park Design for assistance with graphic design.

Additional information and a copy of this report can be found at www.policyinstitutela.org.

Louise Stoney

Louise Stoney is a national expert on early care and education finance and policy. She was one of the architects of the original Louisiana School Readiness Tax Credits, and has done extensive cost modeling in Louisiana to inform early care and education finance in the state. Stoney is co-founder of both the Alliance for Early Childhood Finance and Opportunities Exchange. She has worked with state and local governments, foundations, national policy organizations, early care and education providers, industry intermediaries, and child advocacy groups in more than 40 states and cities. More information can be found at www.earlychildhoodfinance.org.

Louisiana Policy Institute for Children

Melanie Bronfin is the Executive Director at the Louisiana Policy Institute for Children, a non-partisan, non-profit, independent source of data, research and information for policy makers, stakeholders and the public at large around issues related to young children in Louisiana. The Institute develops policy proposals informed by research, best practices and the experiences of other states and performs educational and outreach activities around these recommended policy solutions. This report and additional information about the Louisiana Policy Institute for Children are accessible at www.policyinstitutela.org.

Education Research Solutions

Monica Candal Rahim is the founder and principal of Education Research Solutions, a consulting firm working at the intersection of education research, policy, and politics. Education Research Solutions works with nonprofits, district and state governments, advocacy groups, and foundations to develop, advocate for, and implement research-based solutions for challenges in education. More information can be found at www.edresearchsolutions.com.

EXECUTIVE SUMMARY

Research underscores the importance of children's early experiences for brain development and lifelong success. Children who start school behind generally stay behind, and over 40% of Louisiana's children enter Kindergarten already behind. The good news is that the research also shows that things can be done to make a difference. In fact, data collected over the past two decades by the National Center for Educational Statistics underscores that the very large gap in academic performance between high- and low-income children is shrinking, reversing a previously troubling trend. Experts link these results to increased access to high-quality, affordable preschool.¹

In Louisiana, 2 in 3 young children below the age of five have both parents or their single parent in the workforce. Given that Louisiana's young children are spending substantial time in child care, the challenge for parents is accessing high quality care with qualified teachers. In many places in Louisiana, high-quality child care costs almost as much as a public college's annual tuition.²

At the same time that many of Louisiana's parents struggle to pay for high-quality child care, Louisiana's fiscal crisis has called into question the purpose and effectiveness of all its tax credits. As the state reviews these incentives, Louisiana's School Readiness Tax Credits stand out as a nationwide model and an important and effective lever in:

- Supporting an industry of small businesses—child care centers—that is critical for the state's families and local economies;
- Supporting enhanced quality in the early care and education sector;
- Creating greater access to higher quality care for at-risk young children;
- Incentivizing teachers of young children to strengthen their credentials;
- Increasing awareness and use of higher quality programs;
- Incentivizing local investment in early care and education; and
- Improving outcomes for Louisiana's young children.

Louisiana's School Readiness Tax Credits have successfully accomplished these goals – all without ballooning costs. Through the development of the School Readiness Tax Credits, Louisiana is supporting a sector that includes a broad network child care providers that create jobs and earnings in their local economies, in addition to providing critical child care for children. For every dollar spent in the Louisiana early care and education sector, there is a return of \$1.78 into the local economy.³ The return on investment is even larger if one takes into account the long-term effects of

high-quality child care – increased Kindergarten readiness, reduced need for remediation and special education services in K-12 schools, higher graduation rates, and lower rates of juvenile delinquency.^{4,5,6} In addition, these credits have been used as the state match and maintenance of effort for the federal Child Care and Development Block Grant, which brings over \$80 million in federal funds into Louisiana to support a host of early care and education services.

Beyond the financial benefits for the state and local economies, the School Readiness Tax Credits have incentivized and supported increased quality of early care and education centers by encouraging administrators and teachers to improve their training. Since their implementation, the number of centers with higher quality ratings has increased dramatically.⁷ In particular, the tax credits have increased access to high-quality child care for Louisiana’s most vulnerable children. Between 2009 and 2016, the percentage of children under the age of six who receive CCAP or foster care services and were enrolled in centers with ratings of 3 Stars or above increased from 20% to 46%.⁸ Further, the tax credits have provided a financial incentive for child care center teachers and directors to pursue the training and education needed to increase their credentials, which help improve teaching practices.^{9,10} Between 2008 and 2015, teachers achieving a Teacher Level 1 credential increased from 963 to 3,598, an increase of 374%, and the number of staff that attained higher credentials (at Pathway Levels 2, 3 and 4) increased almost eight-fold, from 284 to 2,156.^{11,12} Finally, the School Readiness Tax Credits have also encouraged local businesses to invest in early care and education, which has resulted in additional funds for early care and education programs and organizations, as well as increased awareness about early care and education among community leaders across the state.

The positive results of the School Readiness Tax Credits demonstrate that they have been a successful way to strengthen the quality of early care and education services in the State of Louisiana, improving young children’s Kindergarten Readiness and strengthening local economies. These successes prove the need to retain the tax credits and to build upon their successes – a win-win-win for Louisiana’s children, families, and communities.

INTRODUCTION

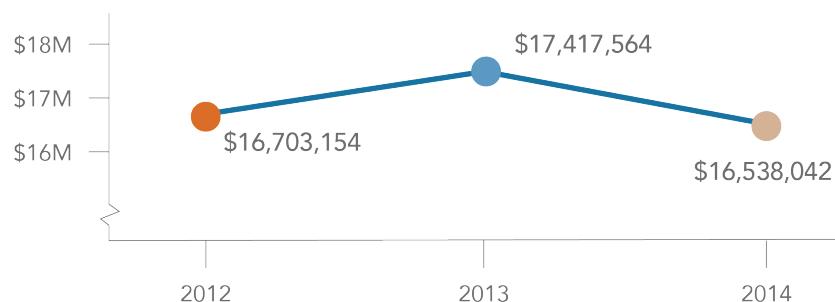
Louisiana’s current fiscal crisis has called all tax credits into question. As the state examines the purpose and effectiveness of its tax credits, the Louisiana Policy Institute for Children seeks to understand the effects of one tax credit package geared towards early care and education – the School Readiness Tax Credits.

Research into these unique tax credits unequivocally finds that the School Readiness Tax Credits have been an important and effective lever in:

- Supporting an industry of small businesses—child care centers—that is critical for the state’s families and local economies;
- Supporting enhanced quality in the early care and education sector;
- Creating greater access to higher quality care for at-risk young children;
- Incentivizing teachers of young children to strengthen their credentials;
- Increasing awareness and use of higher quality programs;
- Incentivizing local investment in early care and education; and
- Improving outcomes for Louisiana’s young children.

The School Readiness Tax Credits have been successful in achieving these objectives without needing ballooning investment from the state. In fact, the State of Louisiana’s investment in the School Readiness Tax Credits has remained relatively consistent over the last three years.¹³

State SRTC Expenditures Remain Consistent Over Time



SUCCESSFULLY SUPPORTING AN INDUSTRY THAT IS CRITICAL FOR LOUISIANA'S FAMILIES AND LOCAL ECONOMIES

Louisiana's early care and education sector includes a broad network of child care providers that create jobs and earnings in their communities, in addition to providing critical child care for children. These small businesses employ workers, who in turn spend their earnings locally, resulting in an economic multiplier effect. A 2015 economic analysis found that for every dollar spent in the Louisiana early care and education sector, there is a return of \$1.78 into the local economy. In addition, for

For **EVERY DOLLAR** spent in the Louisiana early care and education sector,

\$1.78

is returned to the **LOCAL ECONOMY**

For **EVERY JOB** created in early care and education,

1.3 
JOBS

are created in the **LARGER ECONOMY**

Louisiana's **EARLY CARE AND EDUCATION SECTOR** generates

\$830M

in direct and indirect economic activity annually

every job created in early care and education, 1.3 jobs are created in the larger economy. According to the same analysis, the Louisiana early care and education sector generates \$830 million in direct and indirect economic activity annually.¹⁴

WHY EARLY CARE AND EDUCATION?

Research has underscored that a child's early experiences are crucial to brain development and lifelong success. This is because ninety percent of brain development takes place from birth through age four. Children who start school behind generally stay behind, and more than 40% of Louisiana's children enter Kindergarten already behind. The good news is that the research also shows that things can be done to make a difference. In fact, data collected over the past two decades by the National Center for Educational Statistics underscores that the very large gap in academic performance between high- and low-income children is shrinking, reversing a previously troubling trend, and these improvements appear to persist into fourth grade. Experts link these results to increased access to high-quality, affordable preschool.¹⁵

Over the past 8 years, Louisiana has made significant strides in boosting the quality of available early care and education services. In addition to increasing school-based prekindergarten classes, the state has focused on attracting higher-quality child care providers to serve high-needs children and lowering family co-payments for the Child Care Assistance Program. This is an extremely important goal given that over 66% of

What Are the School Readiness Tax Credits?

The **Child Care Provider Credit** is available to child care centers that have a Quality Start rating of at least 2 Stars. The value of the credit is based on the quality level and number of low-income children served by the center, and ranges from \$750 to \$1,500 per child. The credit is refundable and available to both tax paying and non-profit centers. In tax year 2014, 405 participating centers received, on average, a credit worth \$9,900.

The **Child Care Teacher and Director Credit** is available to staff with Pathways Career Ladder Credentials who have been employed in a child care center for at least six consecutive months. The credit is refundable, adjusted for inflation each year, and based on the credential level attained. In tax year 2014, the value of the credit ranged from \$1,630 to \$3,260. 3,770 educators claimed the credit and the average recipient received \$2,150.

The **Child Care Expense Credit** is available to families who incur expenses for enrolling a child under the age of 6 in a child care center with a Quality Start rating of at least 2 stars. The credit amounts to between 50% and 200% of the LA Child Care Credit, based on the Star rating of the center. The credit is refundable for families with incomes less than \$25,000. In tax year 2014, 14,468 families received the credit and the average recipient received a credit of \$223.

The **Business-Supported Credit** is available to businesses that pay for child care expenses in centers with a Quality Start rating of at least 2 stars. The credit amounts range from 5% to 20% of eligible expenses, depending on the center's star rating. In tax year 2014, the average credit claimed (by 57 businesses) was \$7,040.

The **Resource and Referral Agency (CCR&R) Credit** is a dollar-for-dollar investment tax credit for businesses that contribute up to \$5,000 to a CCR&R. The credit is refundable. In tax year 2014, the average credit claimed (by 190 businesses) was \$4,360.

Louisiana children have both parents, or their single parent, in the workforce and child care often costs these families almost as much as a public college education.¹⁶

In fact, the Louisiana School Readiness Tax Credits now serve as a model for early care and education investments nationwide. This paper will highlight the importance of maintaining one of Louisiana's most innovative and successful tax policies.

BACKGROUND

In January of 2008, Louisiana implemented a unique package of tax benefits known as the School Readiness Tax Credits. The credits were designed to strengthen the quality of child care in Louisiana by encouraging programs to participate in Quality Start – the state's quality rating and improvement system (QRIS) that had just been launched at that time. The tax package was also designed to encourage practitioners to obtain credentials and work in QRIS rated programs, parents to use higher rated programs, and businesses to invest in the Child Care Resource and Referral agencies that were charged with providing QRIS training and technical assistance. The tax credit package was a bold step into uncharted territory. When Louisiana's tax credits were enacted, no other state had a comprehensive early care and education quality improvement strategy rooted in tax credit finance.

In addition to strengthening the quality of child care services, School Readiness Tax Credit expenditures are used as state match and maintenance of effort for the federal Child Care and Development Fund, which brings over \$80 million in federal funds into Louisiana to support a host of early care and education services, including the state's Child Care Assistance Program (CCAP). Thus, the School Readiness Tax Credit approach is a win-win; it provides increased revenue for the field and also helps ensure that the State is able to draw down all available federal child care funds.

In 2012 Louisiana enacted Act 3, which launched a multi-year plan to ensure that every student entered Kindergarten ready to learn and on track to a professional career or college degree. Transformation of early care and education services, based on a simplified accountability system, is a key component of this initiative. The new accountability system will soon replace Quality Start and thus requires changes to the School Readiness Tax Credits, so it is important to acknowledge the considerable success of the tax credit approach and to ensure that revisions build on and expand this success.

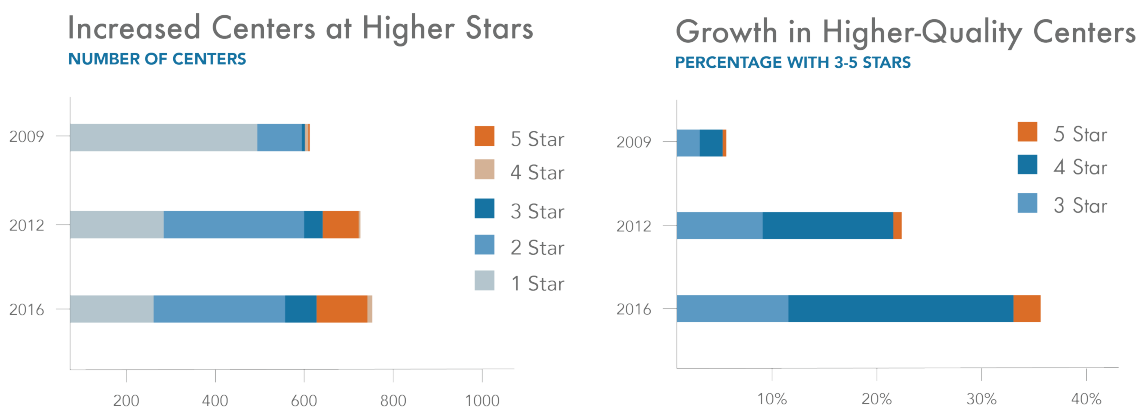
WHY TAX CREDITS?

Unlike K-12 education, most early care and education services in the state are delivered in small, privately owned child care centers and home-based businesses. As stated earlier, the Louisiana child care industry, combined with spillover effects, has a nearly \$830 million impact on the state's economy.¹⁷

Because the child care industry is composed of largely of small businesses, it makes sense to use tax credits as a way for the government to invest in economic development. Indeed, the original School Readiness Tax Credit package of 2008 was included in the Governor's Economic Development budget and framed as investments in small businesses. Data on results have been gathered from the Louisiana Department of Revenue, as well as the agencies responsible for tracking compliance with program quality and teacher credentials. These data underscore that each component of the School Readiness Tax Credits has resulted in positive change for the industry – and for the children and families served – although some credits have been more effective than others. These benefits are discussed in more detail below.

SUCCESSFULLY SUPPORTING ENHANCED QUALITY IN THE EARLY CARE AND EDUCATION SECTOR

Quality Rating and Improvement Systems (QRIS) like Louisiana's Quality Start were initially designed as voluntary, market-based strategies to improve the quality of services offered by child care providers. Linking market-based incentives (tax credits) to participation in Quality Start sent a clear message to child care center owners and directors that participating in quality improvement activities was not only important, but could also be a wise investment. The strategy worked. Between 2009 and 2016, participation in Louisiana's QRIS increased significantly: from 484 centers when the



School Readiness Tax Credits were launched to 801 in 2016.¹⁸ Even more importantly, the number of centers with a higher quality rating increased dramatically. In 2009, only 6% of participating centers had ratings of 3 or above (out of 5 total stars; 3 stars is considered a quality center). In 2016, six times as many centers had attained this goal, and 70% of participating centers received ratings of Star 2 and above.¹⁹

SUCCESSFULLY CREATING GREATER ACCESS TO HIGHER QUALITY CARE FOR AT-RISK YOUNG CHILDREN

The School Readiness Tax Credit was also designed to create a market incentive to enroll children who receive foster care services and children whose families participate in the Child Care Assistance Program (CCAP) and receive a subsidy to help pay for their care. This strategy worked as well. Despite a statewide decline in the number of children that receive CCAP subsidies (due to cuts in the funding and a policy that reduced the income eligibility ceiling), the percentage of subsidized children enrolled in

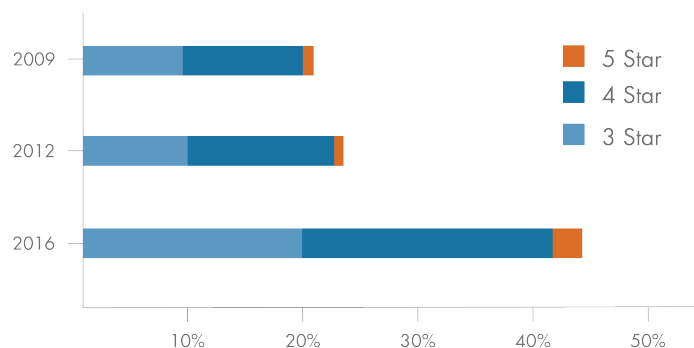
higher-quality settings still increased. Between 2009 and 2016, the percentage of children under the age of six who receive CCAP or foster care services and were enrolled in centers with ratings of 3 Stars or above increased from 20% in 2009 to 46% in 2016.²⁰

A study conducted by the National Women’s Law

Center concludes that trend data on the number of centers participating in Quality Start and improving star ratings, as well as on the proportion of children receiving CCAP subsidies or foster care services enrolled in higher-quality settings, points strongly to the impact of the credits.²¹ In short, Louisiana’s most vulnerable children have increasing access to the high-quality child care they need to succeed in school and life.

Increasing Percentage of CCAP Foster Care Children in High-Quality Centers

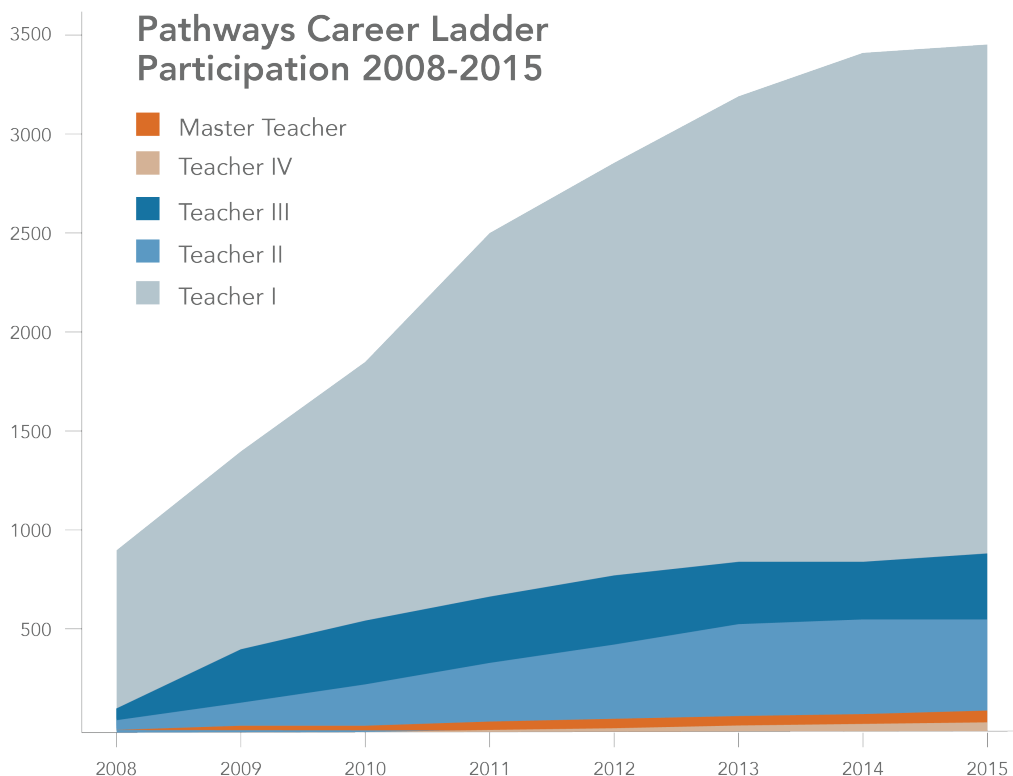
PERCENTAGE OF CHILDREN ENROLLED



SUCCESSFULLY INCENTIVIZING TEACHERS OF YOUNG CHILDREN TO STRENGTHEN THEIR CREDENTIALS

Increasing the qualifications of teachers in early childhood programs is crucial. Research has underscored that the early years provide a foundation on which later learning, and lifelong success, is built. Early childhood teachers and caregivers who have knowledge of, and specific competencies based on, child development and early learning are most likely to achieve positive child outcomes.²² To this end, Act 3 reforms included a requirement that by 2019 all lead teachers in child care centers that receive funding from the State Child Care Assistance Program (CCAP) will have, at minimum, an Ancillary Teaching Certificate. This is a bold step, given that the previous rule did not include any minimum requirements for teachers in child care centers, not even a high school degree.

The School Readiness Tax Credit for child care practitioners gave the Louisiana Department of Education a jump-start toward attaining this goal and has been the most successful component of the School Readiness Tax Credit package. Teachers and child care center directors who improve their professional qualifications, as measured by the Louisiana Pathways Career Development System,²³ and work in a child care center that participates in Quality Start for at least six consecutive months receive a refundable tax credit. The higher the credential level, the higher the financial value of the credit.



Between 2008 and 2015, participation in the Pathways Career Development system soared – the number of child care staff engaging in professional development increased from 1,247 to 5,853. While Teacher Level 1 experienced the largest increase (from 963 to 3,598, an increase of 374%) the number of staff that attained higher credentials (at Pathway Levels 2, 3 and 4) increased almost eight-fold, from 284 to 2,156.^{24,25} The bottom line is clear: if financial incentives are in place, child care center teachers and directors will pursue the training and education needed to increase their credentials. And those credentials help improve teaching practices, which help children prepare for school and life.^{26,27}

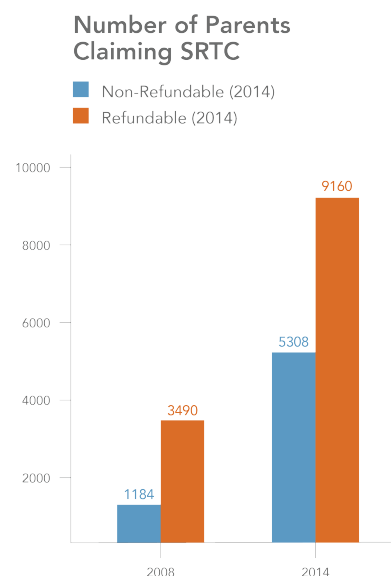
There is no question that the School Readiness Tax Credit for child care practitioners should be continued. However, the best evidence is from child care center owners and directors themselves, who have consistently underscored the value of the credits in several hearings held by the Louisiana Revenue Study Commission:

After I received the credit I was able to hire more employees and improve my teacher to child ratios, which was an important step in improving teaching quality.

Before the credit I was paying minimum wage, which is \$7.25 per hour. As of today, my employees earn an average of \$10 per hour plus the value of the tax credit.

SUCCESSFULLY INCREASING AWARENESS AND USE OF HIGHER QUALITY PROGRAMS

The SRTC Parent Credit is designed to encourage consumers to pay closer attention to the quality of the center they choose for their child. Data from the LA Department of Revenue suggest that this aspect of the credit package has also worked well. Since the SRTC was enacted, the number of parent taxpayers claiming the credit more than tripled – from 4,674 in 2008 to 14,468 in 2014.²⁸ Additionally, the fact that the credit is refundable means that many low-income families can benefit as well. Indeed the number of low-income taxpayers who were able to claim the credit more than quadrupled – increasing from 1,184 in 2008 to 5,308 in 2014.²⁹



SUCCESSFULLY INCENTIVIZING LOCAL INVESTMENT IN EARLY CARE AND EDUCATION

Louisiana has five Child Care Resource and Referral (CCR&R) agencies that are responsible for providing technical assistance, coaching, foundational learning opportunities, resource support and referral services for local families and child care providers. CCR&Rs help child care staff obtain the certification they need to work in the field of early care and education and assist child care centers that seek to participate in Quality Start improve their ratings. The School Readiness Tax Credits included a provision designed to help CCR&R agencies raise funds from local private sector donors to support this work, and many agencies have been able to significantly boost private sector contributions as a result.

The Resource and Referral Agencies have used funding leveraged by the tax credit to provide a myriad materials and services for their communities, including: expanded technical assistance to train and mentor teachers on how to effectively use learning materials with children, specialized teacher training on important topics, professional development conferences for child care teachers, and more.

The Louisiana Department of Education has now required that contractors selected to provide CCR&R services provide at least 20% matching funds. All CCR&R agencies will need to assertively raise funds, and soliciting contributions eligible for the School Readiness Tax Credits is one way to reach this goal.

CONCLUSION

The School Readiness Tax Credits have proven to be a very successful way to strengthen the quality of early care and education services in the State of Louisiana. In fact, Louisiana's tax credit approach has been a model for the nation. The National Women's Law Center featured them in a recent report: *Extra Credit: How Louisiana is Improving Child Care*.³⁰ Leaders from multiple states have reached out to Louisiana requesting information on this innovative financing approach, and last year Nebraska passed legislation modeled on the Louisiana tax credits.

Louisiana is indeed facing a fiscal crisis, and carefully examining tax credits is a prudent response. It is equally prudent, however, to measure the very successful results achieved by the School Readiness Tax credits – in terms of improved teaching and learning, greater choices for families, and stronger opportunities for children, as well as economic development for small businesses that make a vital contribution to the Louisiana economy. The SRTC more than pay for themselves, by leveraging additional federal dollars into the state as well as pumping money into local

economies. The parents, teachers, directors and child care centers that benefit from these credits spend their benefits in Louisiana, generating more jobs and more economic activity for the state. The SRTC are a win-win-win for Louisiana's children, families, and communities.

ENDNOTES

- ¹ Reardon, S. and Portilla, X. (2016). Recent Trends in Income, Racial, and Ethnic School Readiness at Kindergarten Entry. *AERA Open*, 2(3), 1-18.
- ² Gould, E. and Cooke, T. (October 6, 2015). High Quality Child Care Is Out of Reach for Working Families. Economic Policy Institute: Washington, DC. Retrieved from: <http://www.epi.org/publication/child-care-affordability/#child-care-costs-and-epi-s-basic-family-budget>
- ³ Committee for Economic Development. (2015). Child Care in State Economies: Key Findings in Louisiana. Committee for Economic Development: Arlington, VA. Retrieved from: https://www.ced.org/State_Fact_Sheets_Talkers/LA%20-%20FACT%20SHEET.pdf
- ⁴ Reynolds, A., Temple, J., Robertson, D., and Mann, E. (2001). Long-term effects of an early childhood intervention on educational achievement and juvenile arrest: A 15-year follow-up of low-income children in public schools. *Journal of the American Medical Association*, 285, p2339-2346.
- ⁵ Schweinhart, L., Montie, J., Xiang, Z., Barnett, W., Belfield, C., and Nores, M. (2005). Lifetime effects: The High/Scope Perry Preschool study through age 40. Ypsilanti, MI: High/Scope Press.
- ⁶ Barnett, W., and Masse, L. (2007). Comparative benefit-cost analysis of the Abecedarian program and its policy implications. *Economics of Education Review*, 26, p113 - 125.
- ⁷ Louisiana Department of Education. (July 2016). *Department of Education: Star History for Quality Start & CCAP Counts*. On file with the Louisiana Policy Institute for Children.
- ⁸ *Ibid.*
- ⁹ Heisner, M.J.; Lederberg, A. (2011). The Impact of Child Development Associate Training on the Beliefs and Practices of Preschool Teachers. *Early Childhood Research Quarterly*, 26(2), p227-236.
- ¹⁰ Kim, S., Chang, M., & Kim, H. (2011). Does teacher educational training help the early math skills of English language learners in Head Start? *Children and Youth Services Review*, 33(5), 732-740.
- ¹¹ Louisiana Pathways. (April 2016). Louisiana Pathways Early Learning Center Career Development System (unpublished fact sheet). Louisiana Policy Institute: New Orleans, LA.
- ¹² Louisiana Pathways. (September 2016). Classroom Track for Louisiana Pathways Early Learning Center Career Development System. Northwestern State University-Louisiana: Natchitoches, LA. Retrieved from: <http://pathways.nsula.edu/assets/Uploads/04Classroom-Ladder-cds-revised.pdf>
- ¹³ Louisiana Department of Revenue. (July 30, 2016.) *2008-2014 SRTC*. On file with the Louisiana Policy Institute for Children.
- ¹⁴ Committee for Economic Development, 2015.
- ¹⁵ Reardon and Portilla, 2016.
- ¹⁶ Gould and Cook, 2015.
- ¹⁷ Committee for Economic Development, 2015.
- ¹⁸ Louisiana Department of Education, July 2016.
- ¹⁹ *Ibid.*
- ²⁰ *Ibid.*
- ²¹ Campbell, N., Entmacher, J., Blank, H., and Matsui, K. (2015). Extra Credit: How Louisiana Is Improving Child Care. National Women's Law Center: Washington, DC.
- ²² Institute of Medicine of the National Academies. (2015). *Transforming the Workforce for Children Birth Through Age 8: A Unifying Foundation*. National Academy of Sciences: Washington, DC. Retrieved from: <http://www.nationalacademies.org/hmd/Reports/2015/Birth-To-Eight.aspx>
- ²³ Pathways is Louisiana's child care career development system. For more information, go to <https://pathways.nsula.edu/home-louisiana-pathways-child-care-career-development-system>
- ²⁴ Louisiana Pathways, April 2016.

²⁵ Louisiana Pathways, September 2016.

²⁶ Heisner et al, 2011.

²⁷ Kim et al, 2011.

²⁸ Louisiana Department of Revenue, July 30, 2016.

²⁹ *Ibid.*

³⁰ Campbell et al, 2015.

