

Wisconsin Policy Forum: Funding the first years and beyond: Options to raise revenue for child care

Posted on Tuesday, Feb 24, 2026

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Report looks at state and local possibilities under current state law, and examples in other states

As the availability and affordability of child care has become an increasingly pressing issue, most potential options in Wisconsin to generate new child care revenue are available at the state — rather than the local — level, a new [Wisconsin Policy Forum report](#) finds.

The report examines a range of fiscal strategies available to Wisconsin policymakers to address the rising cost, limited availability, and low wages of child care. It does not advocate for or against any option, or take a position on whether any action is necessary.

Some communities are implementing local initiatives to address the issue. Relative to most states, however, local governments in Wisconsin face much tighter constraints on their options to generate new revenues, including for child care.

Historically, federal dollars have comprised most of Wisconsin's child care funding. The Wisconsin Department of Children and Families, which oversees child care programs, is twice as reliant on federal revenue as state government overall. The state also assigns a greater share of federal Temporary Assistance for Needy Families (TANF) funding to child care programs than most states, limiting its options to do more. State funding, on the other hand, remains relatively untapped.

State general fund dollars make for the most straightforward option for new

revenue. With a \$65 million annual appropriation, the 2025-27 state budget established Wisconsin's first child care program funded entirely by state general fund dollars. Beginning in July, the new "Get Kids Ready" initiative will pay participating child care providers to equip four-year-olds with kindergarten readiness skills.

In the future, assigning a greater proportion of existing general fund revenues to child care may be attractive due to the flexibility of the funds, particularly in times of budget surpluses. But this approach also involves tradeoffs with other general fund priorities such as schools and health care.

New or increased tax revenues have been dedicated to fund child care in other states. Proponents note new taxes can generate large dollar amounts and do not compete with other state funding priorities.

Detractors note they increase the state's tax burden and may be unpopular.

- Vermont enacted a 0.44% payroll tax to increase child care affordability and quality.
- Washington state uses a tax on capital gains to fund a range of education projects.
- Louisiana increased its tax on sports betting in part to fund its Early Childhood Education Fund.
- Massachusetts used a surtax on income over \$1 million in part for early childhood education.

State trust funds or endowments require a large upfront investment but may be more sustainable.

- Connecticut used \$300 million from a budget surplus to fund an endowment for child care.
- Montana used \$1 billion of its surplus to create a trust to support select state programs including child care grants.
- Kentucky used tobacco settlement dollars to create a set-aside fund, some distributions from which go to an early childhood development fund.

- Louisiana's Early Childhood Education Fund matches dollars raised by local entities, with revenues coming from a mix of creative sources including sports betting.

Tax incentives are additional state strategies to increase child care funds. These are opt-in, potentially limiting their fiscal impact, and can apply to either businesses or families. Two notable forms include:

- Tax credits to employers for supporting child care; already in place in 25 states. Wisconsin has a limited form of this credit already in place, with two related bills currently under discussion.
- Child and dependent care credits for households based on the care expenses they incur, currently in place in 26 states. Wisconsin has and recently expanded this credit.

Finally, cost-sharing programs split child care costs between participating employers, employees, and the state. Kentucky, Michigan, Missouri, and Ohio have recently launched such programs; their ultimate impact is as yet unknown.

At the local level, Wisconsin law bars many of the revenue-sources available in other states, like municipal sales taxes. School districts are often the local entities best positioned to increase funding for child care in many communities, but current state law tightly caps districts' two main forms of revenue. School boards can use referenda to lift that cap, but voters need to agree. (Municipalities can also hold referenda, although the Forum is not aware of any municipal referendum to fund child care.) There are at least two funding options available to school districts that do not wish to go to referendum:

Community service programs can serve both adults and children and can include full-day child care programs as well as after-school and summer programs. These programs can be funded through the district's "Fund 80" property tax levy, which is not subject to state revenue limits. Raising this levy would increase the overall property taxes paid by district residents.

Pre-kindergarten programs for 4-year-olds already are offered by most districts, with many offering part-time 4K programs. If these were expanded to full-day or five-day-per-week programs, they may serve more children and secure more revenue for the district. The revenue impact would be limited, however, since under

current state law all 4K students – in part-time or full-time programs — are counted as 60% of a student for enrollment counts used in state funding formula calculations. School expansion can also hurt private child care providers by competing with them for four-year-old students.

The report also cites examples of Wisconsin school districts that have achieved success in providing child care, including the Frederic and Sauk Prairie school districts. These examples show that district-run child care centers can sometimes break even or even generate financial returns.

As state and local leaders determine what additional actions – if any – to take on child care, some critical factors may inform their decision. These include the state's current large balance in its main fund, its record low tax burden, recent high levels of school district referenda, and the expiration of large infusions of federal and state dollars for child care at the close of the pandemic.

[This report](#) was commissioned by [Wisconsin Funders for Children and Families](#), a funder collaborative supported by [Wisconsin Philanthropy Network](#). It also builds upon research in our 2025-27 state budget brief, which was supported by the Greater Milwaukee Foundation and Greater Madison Chamber of Commerce.

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