EDUCATION COMMISSION OF THE STATES

POLICY BRIEF

DEC 2025

Maximizing Early Care and Education Funding

Adrienne Fischer and Heena Kuwayama

Families with young children face a variety of barriers to securing convenient, affordable and high-quality child care arrangements during the years prior to kindergarten. These barriers are especially pronounced for families who cannot afford the high cost of tuition. While several public funding streams exist for pre-K and child care, the demand for care far exceeds available funding.

As states look for opportunities to boost local economies, early care and education (ECE) plays an essential role to ensure that families — and especially women — can participate in the labor force and maximize their earnings and career opportunities. Aside from its vital economic role, ECE also prepares young children for success in school and beyond. Research shows that participating in high-quality ECE environments can significantly affect a wide range of outcomes like academic achievement, career trajectories and overall well-being.

These dual purposes of ECE are vastly different but complementary, which demonstrates that investments in ECE systems serve a multifaceted public good. With growing waitlists amid high tuition and inadequate public funding, states are seeking new ways to bridge the gap.

Data show a strong connection between household income and the use of paid child care, which indicates that lower income families are less likely to have access to affordable ECE options. Lowering the cost of care, providing subsidies and expanding publicly funded ECE programs can mitigate these income-related discrepancies. This Policy Brief gives

Early care and education is vital to both economic growth and preparing children for future success.

States play a prominent role in funding early care and education systems using both federal and state funding streams.

To maximize the capacity of mixed-delivery systems, states are exploring innovative funding mechanisms and policy approaches.

an overview of public funding sources for ECE programs at the federal and state level as well as examples of state policies aimed at creating innovative solutions to boost families' access to high-quality programs and at maximizing available capacity.

Federal Funding

Federal programs provide the largest source of funding support for early care and education programs but have eligibility limits that create barriers to access and care. Below are the most recent available data for the largest federally funded programs, including funding levels, eligibility requirements and the estimated number of children served.

Data on the Largest Federally Funded Programs for ECE

	CCDF	Head Start	IDEA Parts B and C
Establishment	Child Care and Development Block Grant Act (1990).	Established 1965 and reauthorized in 2007.	Individuals with Disabilities Education Act (1975).
Fiscal Year 2024 Funding	**$12.3 billion.**	**$11.8 billion.**	**$960 million.**
Funding Mechanism	Subsidies to families administered by states.	Direct grants to providers.	Formula grants to states.
Eligibility	Children from birth-to-age 13 living with working parent(s) or guardians whose income does not exceed 85% of state median income.*	Children from birth-to-age five from families living at or below Federal Poverty Level.	Children from birth-to-age five with a qualifying disability or developmental delay.
Number of Children Served	**1.8 million**	**715,873**	**976,000**

*Eligibility criteria vary by state.

Child Care and Development Fund

The Child Care and Development Fund (CCDF) is the largest federal funding stream for child care. The program is designed to improve child care affordability for low-income, working families by providing subsidies. Federal eligibility guidelines set minimum requirements for children to participate and eligible families pay for a portion of the cost not covered by subsidies that is established by a sliding scale for copayments.

The bulk of funding for the CCDF program is distributed to state lead agencies based on a formula accounting for the population of children under age five, the number of school-age children qualifying for the National School Lunch Program and the state per capita income. A portion of the funds require a maintenance of effort contribution from states.

States play a significant role in the administration of programs by establishing policies for implementation that align with federal guidelines. For example, while federal rules establish minimum eligibility requirements, states may create narrower criteria to serve families most in need. An analysis of state CCDF plans submitted for fiscal years 2025 - 2027 shows that more than half of states set income eligibility thresholds below the federally recommended 85%. Based on the most recent estimates, the program serves 15% of eligible children under federal rules and 22% of eligible children under state rules.

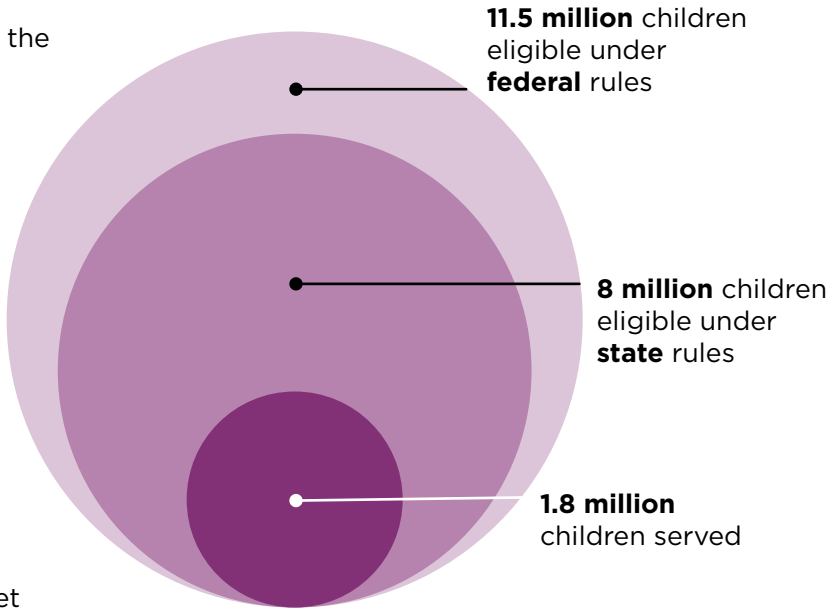

Figure recreated from this report by Nina Chien, Office of the Assistant Secretary for Planning and Evaluation.

States determine subsidy reimbursement rates to providers. Federal guidelines recommend setting subsidy levels at 75% of the market rate, but many states establish rates below this level. A few states have begun using cost modeling as an alternative methodology to reflect the true cost of care. Subsidies may also be adjusted to account for higher cost services, such as programs serving infants. States maintain additional flexibility by determining sliding scales for family copayments (with federal guidelines recommending that families' contribution not exceed 7% of income) and by waiving copayments for families with incomes at or below the Federal Poverty Level.

Providers may also face barriers to accepting CCDF subsidies. Administrative burdens, low reimbursement rates, licensing requirements and participation in quality improvement activities may prove challenging for smaller providers with limited capacity. According to the most recent federal data, the number of providers accepting these subsidies decreased by 68% between 2006 and 2022. Redesigning CCDF subsidies to provide advanced payment based on enrollment, rather than attendance, to more closely reflect the practices of private-paying families may incentivize more providers to participate in the program. Many states are in the process of shifting to prospective pay systems, and others have created grant- or contract-based provider supports to increase the number of subsidized slots available.

Head Start

The Head Start program was established to improve school readiness for children from low-income families by providing free programming to children under age six. Early Head Start programs serve children from birth to age two, and Head Start Preschool programs serve children between the ages of three to five. Funding for Head Start is awarded directly to providers through grants administered by the U.S. Department of Health and Human Services (HHS).

Eligibility for Head Start participation is determined by HHS poverty guidelines, or children may also qualify based on additional family characteristics. Programs have some flexibility to enroll children from families exceeding the income criteria if other requirements are met. Head Start providers are also required to ensure that at least 10% of their total enrollment are children eligible for services under the Individuals with Disabilities Education Act.

> Based on population estimates, Early Head Start serves 10% of eligible children and Head Start Preschool serves 26% of eligible children.

Program availability varies across states and regions, and states see significant differences across rural and urban environments and decreasing availability in counties that have experienced population changes.

Due to the funding structure of Head Start, states have little involvement in program implementation. However, state Head Start Collaboration Offices and State Advisory Councils facilitate coordination between Head Start providers

and other components of states' mixed delivery early care and education systems. At least 14 states also provide supplementary funding to expand the number of Head Start slots available.

Individuals with Disabilities Education Act Parts B and C

The Individuals with Disabilities Education Act (IDEA) requires states to provide a free and appropriate public education to children with disabilities or developmental delays. For children under age six, two provisions of IDEA provide formula grants to states for ECE programs serving these students. IDEA, Part B Preschool Grants provide funding for preschool students aged three to five, and IDEA, Part C provides funding for early invention services for children from birth-through-age two.

IDEA, Part B funds special education services for children from ages three to 21, and supplementary funding is provided to serve children from ages three to five. Local school districts must identify children eligible for services and create an Individualized Education Plan specifying the services to be provided. The most recent available data show that federal funding provides an average of $784 per child. Additional costs may be covered by states and/or districts.

Unmet need for IDEA, Part B is difficult to quantify, but the disparity in percentages of children served aged three to five and aged six to 21 suggests that some eligible children are not being served by the program. State administration of IDEA, Part B Preschool Grants is most frequently housed within state education agencies —though a few states have shifted administration to other agencies in order to streamline ECE services.

IDEA, Part C allocates funding to states to provide comprehensive early intervention services to infants and toddlers. State lead agencies must develop a public awareness and child find program to assist in identifying children experiencing or at risk of developmental delays. Once identified, children are referred for screening, evaluation and assessment. If additional services are required, an Individualized Family Services Plan is developed. Federal funding provides an average of $1,223 per child. States are also required to provide transition planning services to children exiting the Part C program to determine their eligibility to receive Part B services beginning at age three.

State Funding

State-Funded Pre-K

Forty-five states and the District of Columbia provide publicly funded pre-K programs to children in the years prior to kindergarten. State programs vary broadly in eligibility criteria, rates of access and funding mechanisms.

> These programs primarily serve four-year-old children and reach 37% of children in this age group nationally.

Universal pre-K programs are defined by: an intent to enroll all eligible children, age as the only requirement, and sufficient funding and access in all local education agencies. Four states (**Colorado**, **Florida**, **Oklahoma** and **Vermont**) and the **District of Columbia** meet these criteria. An additional eight states have universal eligibility programs that are open to all and serve a significant portion of four-year-olds, but may not be available to all eligible families. The remaining states limit eligibility to narrower criteria that is often based on income and other family characteristics to target families most in need of care.

Most states fund pre-K by general fund appropriations, which can leave funding levels vulnerable to economic shifts and enrollment changes. However, at least 14 states provide funding for pre-K through their K-12 funding models. This enables states to stabilize program funding using the same student count method employed for K-12 students. Some states may fund pre-K students at a lower rate than K-12 students — particularly in states with half-day programs.

A few states use block granting to allocate funding directly to localities or providers, including **Illinois** and **Kansas**. These programs may allow states to target specific areas or populations of need rather than supplying providers with a set per child reimbursement rate. To supplement state funding, at least 12 states also require districts or providers to acquire a local match to qualify for pre-K funding.

Dedicated Funds

Several states have established dedicated revenue streams or investment funds for early childhood programs. Dedicated funding streams tend to fluctuate less than general fund appropriations and provide stable and consistent funding for early childhood education and care that providers can rely on in the long-term.

In 1998, **California** voters passed Proposition 10, which increased taxes on cigarettes and other tobacco products and dedicated the revenue to early childhood services and programs serving expectant mothers and children through five years of age. Proposition 10 also established First 5 California to oversee the expenditure of these funds.

More recently, **Connecticut** established the Early Childhood Education Endowment, which is a permanent savings account dedicated to early childhood education and care. The Endowment, initially created by S.B. 1 (2025), receives the amount of any unappropriated surplus from the General Fund in each fiscal year up to a maximum of $300 million. Endowment funds may be used to strengthen early childhood education and care in many ways, including helping families access child care, supporting increases in early childhood educator wages and improving child care facilities.

Some states, such as **Kentucky** and **Missouri**, have also dedicated portions of their Tobacco Master Settlement Agreement funds to early childhood programs. While **Kentucky** deposits 25% of these funds into the state Early Childhood Development Fund annually, **Missouri** has dedicated at least $35 million of its these funds to the Early Childhood Development, Education and Care Fund each fiscal year.

State Tax Credits

In addition to the federal Child Care and Dependent Care Credit available to eligible taxpayers paying out-of-pocket for child care, many states have established state-level tax credits to provide families with some assistance in covering child care costs. State tax credit offerings vary and particularly around the refundability of tax credits and the relationship of state credit amounts to the federal tax credit.

Louisiana offers two tax credits related to child care expenses. The regular child care expense tax credit provides taxpayers with a state income tax credit for any child care expenses that also qualify for the federal tax credit. A taxpayer's state credit is a percentage of their federal credit — with a minimum of 10% and maximum of 50% — depending on the taxpayer's income.

The state also offers an additional school readiness child care expense tax credit, which provides a credit for taxpayers with children under the age of six who attended a child care facility that earned at least two stars in the state's child care rating system. The credit amount is a percentage of the taxpayer's federal credit, with a minimum of 50% and maximum of 200%, depending on the facility's quality rating.

Both tax credits are refundable for taxpayers with a federal adjusted gross income of $25,000 or less. For taxpayers with adjusted gross income above this threshold, the tax credits are nonrefundable but may be carried forward for up to five years.

Oregon's working family household and dependent care credit is a refundable tax credit for low- to moderate-income families that assists with the cost of dependent care. Eligibility depends on a taxpayer's adjusted gross income and income limits vary by household size. A taxpayer must provide proof of qualifying expenses (i.e., dependent care costs incurred while working, looking for work or attending school). The taxpayer may claim a tax credit of up to a certain percentage of these expenses that depends on income, household size and the age of the child receiving care.

The Tri-Share Model

Tri-Share is a cost-sharing model through which the cost of an employee's child care is split equally between the employer, the employee and the state. **Michigan** was the first state to implement a Tri-Share model in 2021, and at least eight states following suit in the years since. To receive Tri-Share benefits, Michigan employees must work for a participating employer, have an income between 250% and 325% of the federal poverty level, and not be otherwise eligible for the child care subsidy program.

Though Tri-Share has recently gained popularity among states due to its demonstrated effectiveness for eligible families, its impacts are somewhat limited in scope. Eligibility criteria for participation in the program limit the portion of a state's population who may benefit. In addition, while it may increase some families' access to child care, the model does not address larger systemic child care needs, such as the availability of child care in certain areas or the recruitment and retention of child care employees.

Subsidized Child Care for Child Care Employees

In an effort to strengthen the early educator workforce, some states have introduced programs that provide free or subsidized child care for early education and child care employees. These programs provide an incentive for the recruitment and retention of child care staff who are parents.

Kentucky was the first state to establish this type of program in 2022. The state expanded the eligibility requirements of the state's child care subsidy program to automatically include any individual working 20 hours or more per week in a licensed early care and education program. Several states, including **Arizona**, **Colorado**, **Nebraska** and **Rhode Island**, have introduced similar programs since then.

Opportunities to Maximize Capacity

States administer ECE services through a mixed-delivery system, which operates across multiple programs and funding streams in a variety of environments and geographies. Meeting the needs of families with vastly differing characteristics and preferences can present additional challenges in an already fragmented and underfunded system, but states can also identify opportunities to maximize available funding.

Removing Barriers to Provider Participation

Expanding capacity within the mixed-delivery system is dependent upon using providers across school-, center- and home-based environments and public entities, faith-based and nonprofit organizations, and for-profit companies. Ensuring that policies and standards are aligned across programs and funding streams can enable providers throughout the system to access funding from multiple sources. Shared services networks may also reduce costs to providers and help navigate administrative burdens.

Home-based providers are especially vulnerable to obstacles in accessing public funding across multiple programs. Despite serving a significant number of children from birth to age five, these providers are less likely to report benefiting from public funding. Home-based providers are also more likely to offer care during nontraditional hours to fill a vital need in the system. States can expand supports for home-based providers by ensuring that statutes, rules, and regulations allow participation and providing technical assistance through family child care networks.

Governance Structures

Recent analysis of state ECE governance structures showed that half of states administer an average of 17 different programs across three to four agencies. While research on the effects of governance on state service delivery is still developing, at least nine states have chosen to consolidate ECE programs into an existing agency or a newly created agency since 2020. Streamlining ECE

governance may present new opportunities to align policies and procedures across programs and boost financial efficiency; for example, coordinated or centralized enrollment systems may be more easily implemented when programs are co-located within a single agency.

Meaningful Coordination

Nearly every state has at least one advisory council dedicated to ECE, however, the extent to which these advisory bodies are empowered to coordinate across agencies and programs may vary. Many of these councils were created to fulfill the duties required by the Head Start reauthorization of 2007, but not all have remained active. Advisory councils are tasked with performing periodic needs assessments, coordinating interagency data collection and aligning policies to leverage funding across programs. Providing staff support and other resources to councils can bolster administrative capacity to fulfill the necessary duties, which may be especially valuable in states with more fragmented governance structures.

Final Thoughts

Early care and education programs provide widespread benefits to families with young children and their community's economy. Innovative policies in the state context can help maximize states' capacity and streamline funding across the mixed-delivery system. Given their unique administrative role in these programs, states are in a position to make this fragmented, complex system more cohesive.

About the Authors

Adrienne Fischer

As a senior policy analyst, Adrienne focuses on issues related to early care and education. Prior to joining Education Commission of the States, Adrienne covered education policy issues with the National Conference of State Legislatures and earned a master's degree in public administration. When Adrienne is not hard at work, she can be found enjoying the outdoors or immersed in a good book.

Heena Kuwayama

As a policy analyst, Heena focuses on researching and responding to information requests, tracking legislation and supporting other Policy Team projects. Prior to joining Education Commission of the States, Heena taught elementary math for three years at a charter school in New Orleans and worked as an education policy research intern at the Thomas B. Fordham Institute. Heena is dedicated to ensuring that every student has access to a high-quality education that empowers them to reach their full potential.