CAPSTONE

Early Childhood Education Funding Landscape: Current Outlook and Funding Mechanisms

Final Report

May 2025

This report was prepared by Capstone LLC, which was engaged by KinderCare Learning Companies to conduct an independent analysis of federal child care policy and appropriations. All findings and conclusions reflect Capstone's independent assessment.

Capstone at a glance

Areas of focus

- Energy, industrials, and infrastructure
- Financial & business services
- Healthcare
- Technology, media, and telecommunications
- National security
- Government services
- Education

Our services

We provide companies with a range of services, including:

- Buy-side due diligence
- Strategy development
- M&A and market entry
- Sell-side due diligence
- Portfolio company advisory

Our offices

Capstone’s approach to policy analysis

Capstone takes an outside-in approach to our research. Complementing our team's deep sector and policy expertise, we leverage a robust network of state & federal policymakers, NGOs, industry executives, trade associations, and other stakeholders to bring additional insights to our research and analysis.

Outlook

Data-Driven Analysis

- We analyze public records, including legislation, regulation, public comments, company filings, and data rooms.
- We use superforecasting principles to improve our predictive accuracy, to quantify potential outcomes and impact.

Global Network

- We leverage our extensive network to conduct 1:1 interviews on a no-names basis with critical stakeholders
- Key stakeholders include senior management, policymakers, regulators, lobbyists, academics, and third-party activists.
- Capstone has relationships with policymakers at all levels of government—from international and national to state and local leaders.

Our Deep Expertise

- Our analysts are experts in both policy and investment analysis.
- We distill our research and stakeholder engagement to distinguish impactful opportunities and risks from noise.
- We provide strategic advice focused on transactions, ongoing operations, or new market entry in regulated industries.

Agenda

Scope overview

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Scope of work

CCDF Overview and State Implementation	• Provide an overview of the Child Care and Development Fund (CCDF), including its multiple funding streams, its funding levels relative to the Department of Health and Human Services (HHS) budget, and how state allocations are determined. • Detail CCDF mechanics at the state level, including a discussion of eligibility, how child care providers participate in state voucher programs, and state payment practices.
CCDF Funding Outlook	• Discuss historical funding for the discretionary funding stream of the CCDF—the Child Care and Development Block Grant (CCDBG). • Detail political support for CCDBG and increases in funding under recent administrations. • Discuss the impacts of potential cuts to CCDBG funds and any historical precedent for a reduction in funding.
Impacts of Recent Federal Actions	• Detail the role of the US Department of Education, if any, in federal child care policy and assess the potential for recent administrative changes at ED to impact child care programming. • Provide an overview of recent administrative actions at the US HHS executed by the Department of Government Efficiency (DOGE) and assess their implications for funding flow. • Discuss the differences between CCDF and Head Start, and the relevance of Head Start funding for private child care providers

Acronyms and definitions

Term	Definition
ACF	Administration for Children and Families
ARPA	American Rescue Plan Act
C3	Commonwealth Cares for Children
CACFP	Child and Adult Care Food Program
CCDBG	Child Care and Development Block Grant
CCDF	Child Care and Development Fund
CCES	Child Care Entitlement to the States
CR	Continuing Resolution
DOGE	US Department of Government Efficiency
EBT	Electronic Benefits Transfer
ECE	Early Childhood Education
ED	US Department of Education
HHS	US Department of Health and Human Services
IDEA	Individuals with Disabilities Education Act
MOE	Maintenance of Effort
PDG	Preschool Development Grant
SMI	State Median Income
TANF	Temporary Assistance for Needy Families

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SCOPE OVERVIEW

EXECUTIVE SUMMARY

CCDF OVERVIEW AND STATE IMPLEMENTATION

CCDF APPROPRIATIONS AND OUTLOOK

DOGE, ED, AND PROPOSED HEAD START CUTS

The federal child care subsidy has partisan support and remains highly stable

Topic	Analysis	Outlook
Overall Conclusion	• **Capstone believes that political support and the overall funding environment for the Child Care and Development Fund (CCDF) is highly stable. We expect flat-to-increasing funding for CCDF and do not expect broader reform initiatives across government to impact the program.** — Funding for the discretionary component of CCDF, the Child Care and Development Block Grant (CCDBG), has always been an area of bipartisan agreement. We expect funding to remain flat or increase modestly even as Congress looks to cut funding elsewhere. — Staff reductions and administrative reorganizations at the US Department of Health and Human Services (HHS) have little impact on the distribution of CCDF funds to state agencies that run child care subsidy programs. The lack of funding interruption is positive for child care providers.	
CCDF Overview and State Implementation	• **The CCDF is the primary federal subsidy for private child care. The program has existed for decades and is administered as a block grant to states, giving state lead agencies considerable flexibility in determining parameters for local programs.** — CCDF is comprised of multiple funding streams, including the mandatory Child Care Entitlement to the States (CCES) and the discretionary CCDBG. States make contributions to access CCES funds. — State lead agencies, often a state department of health and human services, set program rules on family eligibility, provider payment rates, payment processes, licensing and safety standards, etc. — Broadly, CCDF rules and state control over program implementation are highly stable. The significant level of state control, rather than federal control, is generally viewed as a key program benefit.	
CCDF Appropriations and Outlook	• **Capstone believes that the appropriations outlook for CCDF is positive through FY 2026. We expect Congress to flat-fund or marginally increase CCDBG appropriations. We do not anticipate any funding cuts to the program.** — Funding for CCDBG, the discretionary component of CCDF, has increased significantly in the last decade. A substantial funding increase for CCDBG was authorized under unified Republican control of government in the previous Trump administration, a strong indicator of Republican support for the program. — In the last two years, Republican legislators in the House have sent letters to appropriations leadership encouraging robust CCDBG funding. Recent House Republican budget proposals have increased CCDBG funding modestly while cutting funding elsewhere. — Additionally, a leaked draft proposal for HHS funding would level fund CCDBG. The President's "skinny budget" request does not propose to make cuts to CCDBG, despite proposing significant cuts to other areas of discretionary spending. — Nine days into the second Trump administration, the president signed an executive order highlighting CCDBG as a program aligned with the administration's agenda.	
DOGE, ED, and Proposed Head Start Cuts	• **Staff changes and reductions at HHS do not impact distribution of CCDF funds. Downsizing at the US Department of Education has virtually no impact on federal child care policy, and possible cuts to Head Start appear less likely after they were excluded from the President's budget** — Staff downsizing at HHS should have virtually no impact on CCDF funding distribution to state agencies and onward to providers. — ED does not control federal child care policy or key child care funding, so cuts to ED have virtually no impact on private child care providers. — Despite previous reports, the President's "skinny budget" did not include any explicit recommendation of a cut to Head Start funding. Any proposed cuts to Head Start must be authorized by Congress.	

Agenda

CCDF is the primary vehicle to provide child care subsidies to ~1.8M low-income children annually

Recent Evolution and Composition of the CCDF

- Administered by HHS, the CCDF is a collection of funding streams that serve as the primary federal and state vehicle for providing child care subsidies to low-income working families.
- Federal CCDF dollars are sent to states to administer. Parents generally receive funds in the form of certificates (i.e., vouchers) towards a child care provider of their choice.
- Among the myriad federal programs that target early childhood education—e.g., Head Start, Preschool Development Grant B-5, IDEA Part B and C, etc.—CCDF stands out as the largest in terms of appropriation and students covered.
- The two main federal components of CCDF include:

Primary CCDF Funding Streams

Funding	Description	Appropriations
CCDBG	The largest component of CCDF, the Child Care Development Block Grant, was established in 1990 and created new child care subsidy supports for low-income families.	Discretionary
CCES	In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act repealed welfare-related child care funding streams and replaced them with new mandatory child care funding—the Child Care Entitlement to the States.	Mandatory

- Annual funding for CCES is established in statute, and funding is provided annually without any need for congressional input.
- CCDBG funding is appropriated annually by Congress. Congress could "reauthorize" CCDBG and allocate multiple years of funding. Democrats and Republicans have proposed multi-year reauthorization recently.

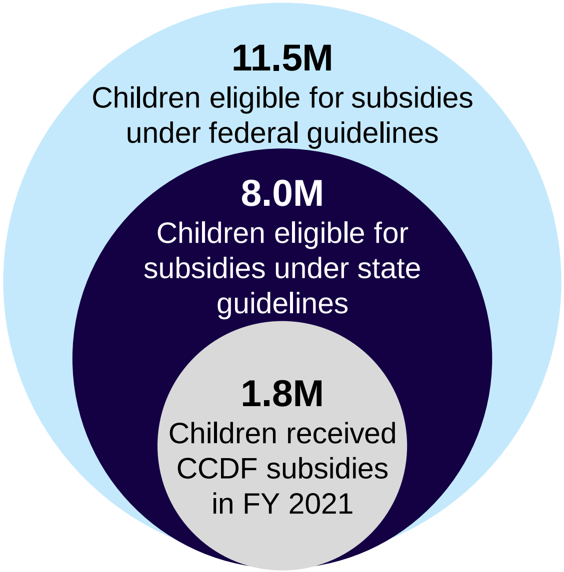
CCDF Eligibility Tied to Child's Family Income

Children eligible for CCDF funds under current rules are:

- Under the age of 13;
- Reside with a parent or parents who are working or attending a job training or education program; and
- Reside with a family whose income does not exceed 85% of the state median income (SMI) and whose assets do not exceed $1M.

States have flexibility to set SMI thresholds above or below 85%. If SMI thresholds are set above 85%, then subsidies for those children must be paid for with supplemental state funding.

~1.8M Children Are Served By CCDF Annually; Millions More are Eligible



- About 75% of children receiving CCDF subsidies receive care in a child care center.
- Beyond the ~1.8 million served, there are more than 6 million children who are eligible under both federal and state guidelines.

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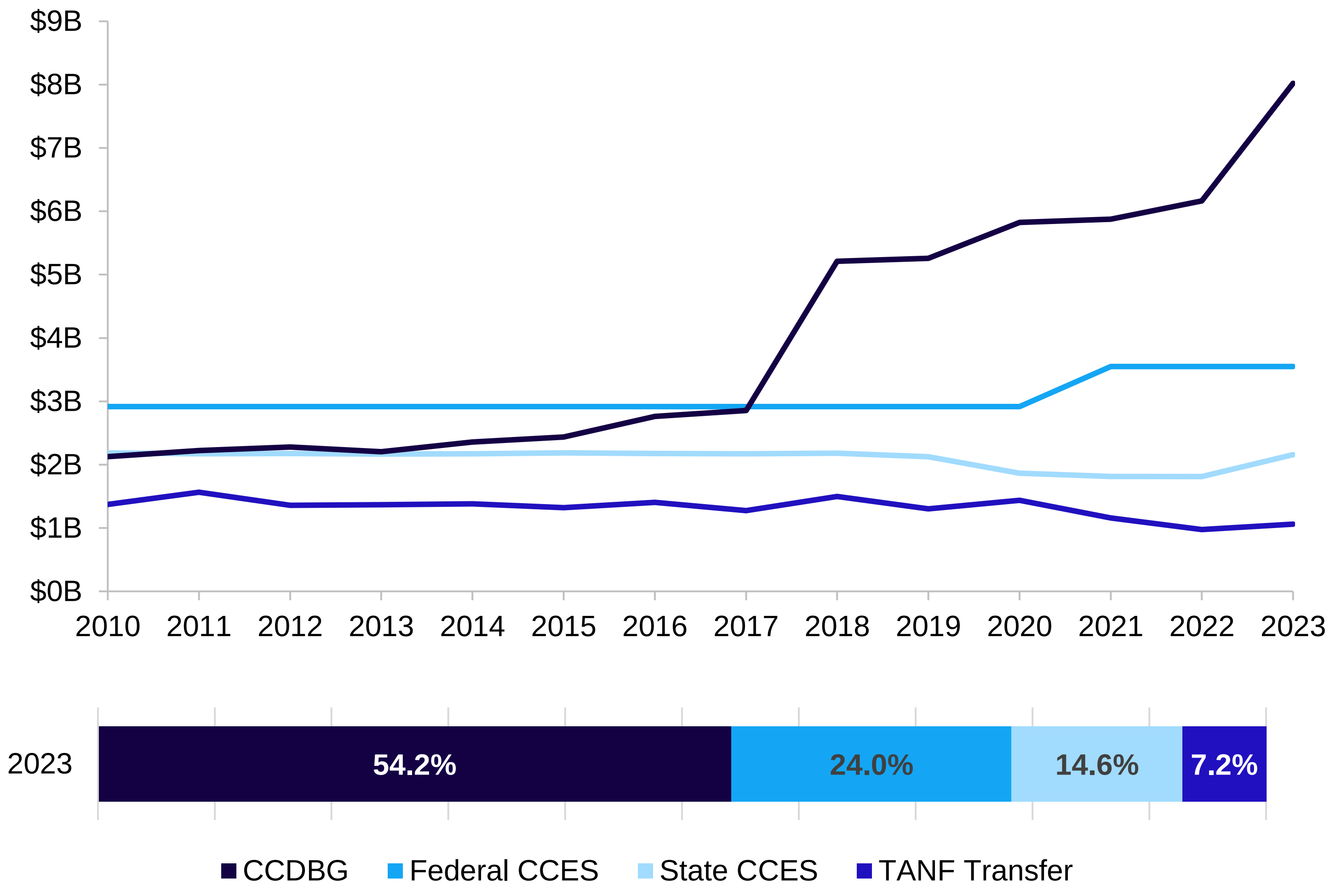
The majority of CCDF funding is federal; states contribute approximately 20% of CCDF funding

CCDF Funding Stream Breakdown from FY 2010 to FY 2023* ($B)



State CCES Typically Accounts for ~$2B Annually

- State CCES is comprised of 1) its MOE funds, which total ~$888M annually; and 2) its state match funds, which total ~$1B.
- State CCES contributions dipped during COVID-19 due to:
  - — Families First Coronavirus Response Act of 2020 temporarily reduced the state funding match rate by 6.2 percentage points, which was phased out by January 1, 2024.
  - — The American Rescue Plan Act of 2021 exempted a portion of increased CCES Funds (the bump seen for Federal CCES beginning in 2021) from state match requirements from FY 2021 to 2022.
  - — State matching funds are highly stable given they are required to receive significant CCDF dollars.

TANF Transfer Typically Accounts for ~$1B Annually

- Although federal statute authorizes states to transfer up to 30% of their federal Temporary Assistance for Needy Families (TANF) block grant allotments to the CCDF, only 3% of TANF funds ($1.06B) were actually transferred for FY 2023
  - — Although 23 states and DC did not transfer any TANF dollars to CCDF, many of them used TANF towards “direct spend” child care initiatives and Pre-K/ Head Start.
  - — For states that did transfer, most did not come close to the 30% threshold.
  - — States that did approach 30% are Mississippi (27%), Indiana (24%), and Montana (23%).

Source: Congressional Research Service, Administration for Children and Families, First Five Years Fund, Capstone analysis

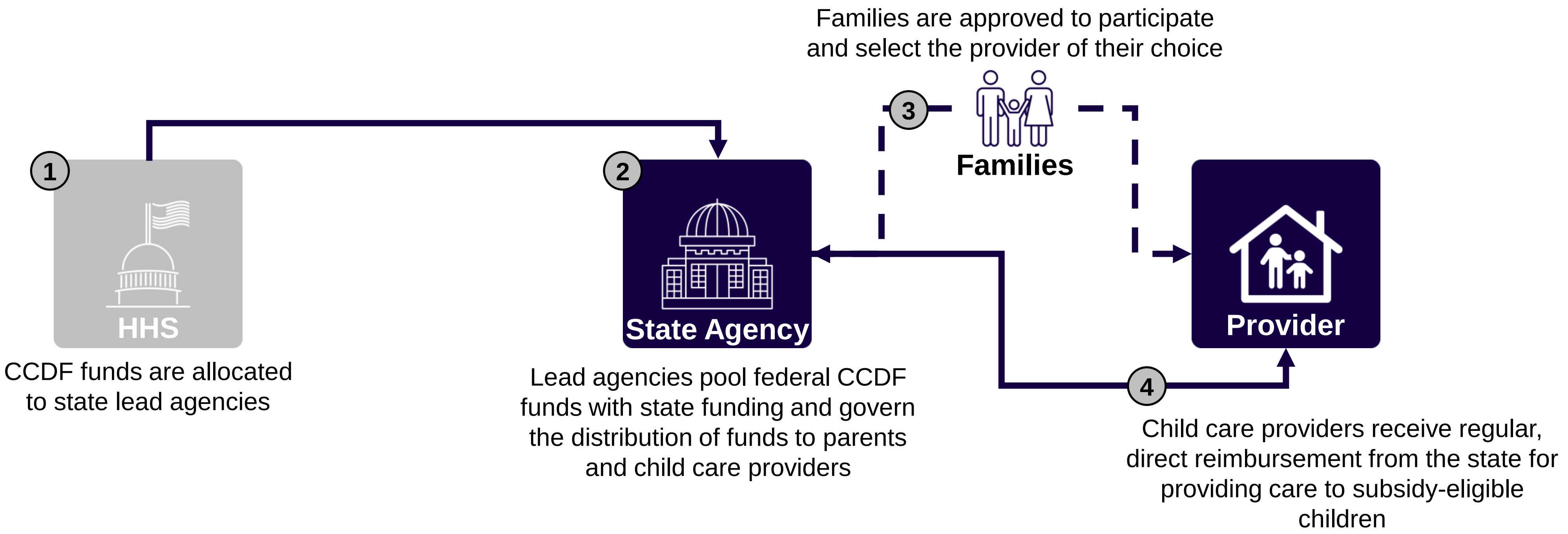
*Most recent year for which TANF transfer data is available; excludes CCDBG supplemental funding

CCDF funds flow to state agencies based on statutory formulas; states distribute those funds to parents and providers under program rules developed by the state

Flow of CCDF Funds from HHS to Parents and Providers

- CCDF is a true block grant program, meaning appropriated funds are distributed to states, and states are afforded considerable autonomy in designing subsidy programs and paying providers for providing care.
- HHS works with state lead agencies, often a state's department of health and human services, and then allows the state to control program implementation. States also conduct provider oversight and provide technical assistance to child care operators.
- State lead agencies provide vouchers to eligible families that they use to pay for child care under CCDF. Providers receive direct reimbursement from the state for subsidy eligible families.

Illustrative Flow of CCDF Funds from HHS to Providers



Source: Congressional Research Service, Administration for Children and Families, Capstone analysis

CCDF state allocations, which are outlined in federal statute, remain highly stable and are unlikely to be decreased

CCDBG Distribution Formula

- Discretionary CCDBG funds are allocated to states based on a formula with three weighting factors outlined below. The formula is designed to provide more funding to states with a higher concentration of high-poverty children. States are not required to provide any matching funds to receive their CCDBG allotment.

1. **Young Child Factor**
   CCDBG considers the ratio of the number of children under age five in the state to the number of children under age five in the country. A higher ratio of young children increases a state's allotment.

2. **School Lunch Factor**
   The CCDBG formula also considers the percentage of children in the state who receive free or reduced-price school lunch, weighting funding towards states with more free/reduced price lunch students.

3. **Allotment Proportion Factor**
   This final factor considers state per-capita income relative to national per-capita income and weights funding towards states with lower income levels .

CCES Distribution Formula

- **CCES Federal Funding:** Mandatory CCES funds are allotted to each state separately from discretionary CCDBG funds.
- CCES funding for states is based on:
  - — A fixed historical amount equal to the amount each state received for child care in the mid-1990s ($1.2 B annually); and
  - — A formula amount allotted to states based on the share of children under age 13 in the state relative to the national total. This is conditional on sufficient state CCES contributions.
- **State CCES Contribution:** To receive the federal CCES formula funds (i.e., the amount based on the number of children under age 13 relative to the national total), each state must contribute matching and maintenance of effort funds. State CCES funds generally amount to $2.2B and are composed of:
  - — Funding to meet its Maintenance of Effort (MOE) requirement by funding child care at the rate it did in the mid-1990s ($888M annually); and
  - — A state match for the federal CCES formula funds that is pegged to the current Medicaid match rate.

Capstone Perspective

- The funding allotments under both the CCDBG and CCES are outlined in statute—creating a high degree of certainty around annual federal child care support for each state. As the formulas for funding are defined in statute, there is very little ability for an administration to redirect combined CCDBG and CCES funds without congressional support, which would require bipartisan agreement.
- While there have been recent attempts to reauthorize CCDBG, those efforts do not propose changing the formula for allocating funds to states. Capstone does not believe there is any political dissatisfaction with the current allocation approach for CCDBG or CCES.

Source: Congressional Research Service, Administration for Children and Families, Capstone analysis

Providers opt in to participate in state CCDF programs, and eligible families choose the CCDF provider that best meets their needs

Provider Participation in State-level CCDF

- **Provider Applications**: Licensed child care providers are not required to participate in state-level CCDF programs. Providers must actively opt in. In general, states require that individual providers apply through the state's lead agency to receive subsidy funds.
- **State Attendance and Payment Systems**: Providers that participate in a state's CCDF program are required to utilize the state's attendance tracking and payment systems. Those tools vary by state, as do the payment schedules for CCDF programs. Although providers have historically been reimbursed on a multi-week delay based on attendance, a recent HHS rule change mandates that states transition towards prospective payment based on child enrollment (as is the standard practice for the private-pay market).
- **Health, Safety, and Licensing Standards:** States outline health and safety rules for participating providers that comport with basic federal standards, outline student-teacher ratios, develop space and facilities requirements, and generally enforce those rules for participating CCDF providers.
- **Quality Rating Systems:** CCDF providers are typically enrolled in state-level quality rating systems. Higher ratings relative to state standards generally result in higher reimbursement rates, incentivizing providers to increase their quality of care.

Parental Choice in Selecting Providers

- **Family Enrollment:** Families with children eligible for CCDF must apply to participate in the program. State lead agencies typically manage the application and approval process—though some states engage contractors or local agencies to manage applications and eligibility determinations. Child care centers can assist families in navigating the application and approval processes.
- **Flexibility in Selecting Providers**: Once approved, families have the flexibility to select a child care provider that participates with CCDF. The ability for parents to select the most appropriate setting for their child is generally viewed as a significant advantage of the CCDF program.
- **Family Co-payment:** Families that receive CCDF funds are required to supplement the voucher payments to providers through a "co-pay." Co-pay amounts are established by state lead agencies on a slide fee scale basis to account for family size, income, and other family characteristics.

Capstone Perspective

- The ability of families to select the participating CCDF provider that best meets the family and child's needs is a hallmark of the program and a cornerstone of its bipartisan support.
- The program also gives providers the flexibility to opt in or opt out and generally provides greater rewards to providers for clear demonstrations of higher quality care.

Source: Administration for Children and Families, Capstone analysis

States have flexibility, within broad CCDF program parameters, to determine eligibility thresholds for participation in state child care subsidy programs

State-Level SMI Flexibilities

- **SMI Flexibility:** Using federal funds, states can establish a maximum SMI threshold at 85%. They do have the flexibility to set their SMI threshold below 85%. Based on state-level 2025-2027 CCDF plans, 31 states have established a maximum income eligibility for a family of 4 below 85% of the SMI.
- **State and Local Funds to Increase Eligibility Thresholds:** Maine, Vermont, and New Mexico supplement their federal CCDF funding with state contributions. Those state contributions are used to provide access to child care subsidy programs for children from families above 85% of the SMI (only state funds are used to support children above the 85% SMI threshold)

State	Eligibility Limit as % of SMI (Family of 4)
1. New Mexico	152%
2. Vermont	147%
3. Maine	125%
▶ 16 states	85%
48. Ohio	43%
49. Nevada	41%
50. New Jersey	40%

Additional Enrollment Flexibilities

- **Approved Parental Activities:** While federal guidance requires that a parent or guardian of a student participating in CCDF be employed or attending job training, states have some ability to expand on approved parental activities. For example, many states consider continuing education through high school, GED classes, or post-secondary education in lieu of employment.
- **Priority Groups:** CCDF rules allow states to identify special populations for priority consideration for limited CCDF funds and child care seats. States may give priority enrollment, in the event of program waitlists, to students receiving public assistance, students with special needs, homeless children, children in protective services, etc.
- **Enrollment Waitlists:** Some states have more demand for child care vouchers than others or have established payment rates/eligibility thresholds that make it difficult to serve all children who qualify for service under state rules. As a result, ~20% of states have active waitlists to participate in CCDF. Typically, states provide priority access to vouchers and limit waitlist time for students from priority groups.

Capstone Perspective

- While there is significant interstate variation in CCDF eligibility standards, state thresholds are generally relatively stable year over year.
- State lead agencies outline their eligibility standards in 3-year CCDF plans that are submitted to and approved by HHS—creating a clear line of sight for providers and families on state eligibility standards.

Source: Administration for Children and Families, Capstone analysis

States determine CCDF payment rates for providers and the required tuition co-pay for families

Provider Payment Rates and Methodologies for Determining Rates

- **Federal Requirements**: Payment rates must be "sufficient to ensure equal access" to childcare to ensure CCDF participants can access care in line with that offered to wealthier families paying for childcare outside of CCDF (HHS mandates rates must meet or exceed those charged by the 50th percentile of the market). However, HHS encourages payment rates to equal at least the 75th percentile of the market rate.
- **State Rate Setting Flexibility**: State lead agencies are responsible for setting the payment rates that childcare providers receive for serving children participating in the program, with consideration of the overarching federal rules. Payment rates can differ by geographic region, provider type and quality, and the age or needs of the child. States utilize market rate studies or alternative cost-modeling methodologies to establish payment rates. Cost-modeling approaches are favored by child care advocates as they are believed to be more accurate in reflecting the true cost of care.

1. **Market Rate Study**
States using market rate studies collect and analyze historic child care pricing data from providers (e.g., across care types, ages, locations, etc.) and then establish rates in relation to those averages.

2. **Cost Modeling**
Cost modeling approaches to rate setting combine pricing data and assumptions regarding child care inputs to estimate the actual costs incurred by providers to deliver high-quality child care.

Family Co-payments

- **Federal Requirements:** States are encouraged to set co-payments at or below 7% of monthly family income to ensure that cost is not a barrier to child care access.*
- **State Co-payment Flexibility:** Co-payment amounts and percentages vary widely by state, with some utilizing temporary waivers to bypass the 7% cap. For example, for a family of three, monthly co-payments range from as low as $15 (Oregon, 0.3% of income) to over $1,000 (Vermont, 12.5% of income; Wisconsin, 17% of income).
- Many states use their flexibility under the federal CCDF rules to waive co-payments entirely for families below certain income thresholds or for certain priority groups (i.e., homeless children, children with disabilities, children from very low-income families, etc.).

Co-Pays Based on 2025-2027 CCDF State Plans**

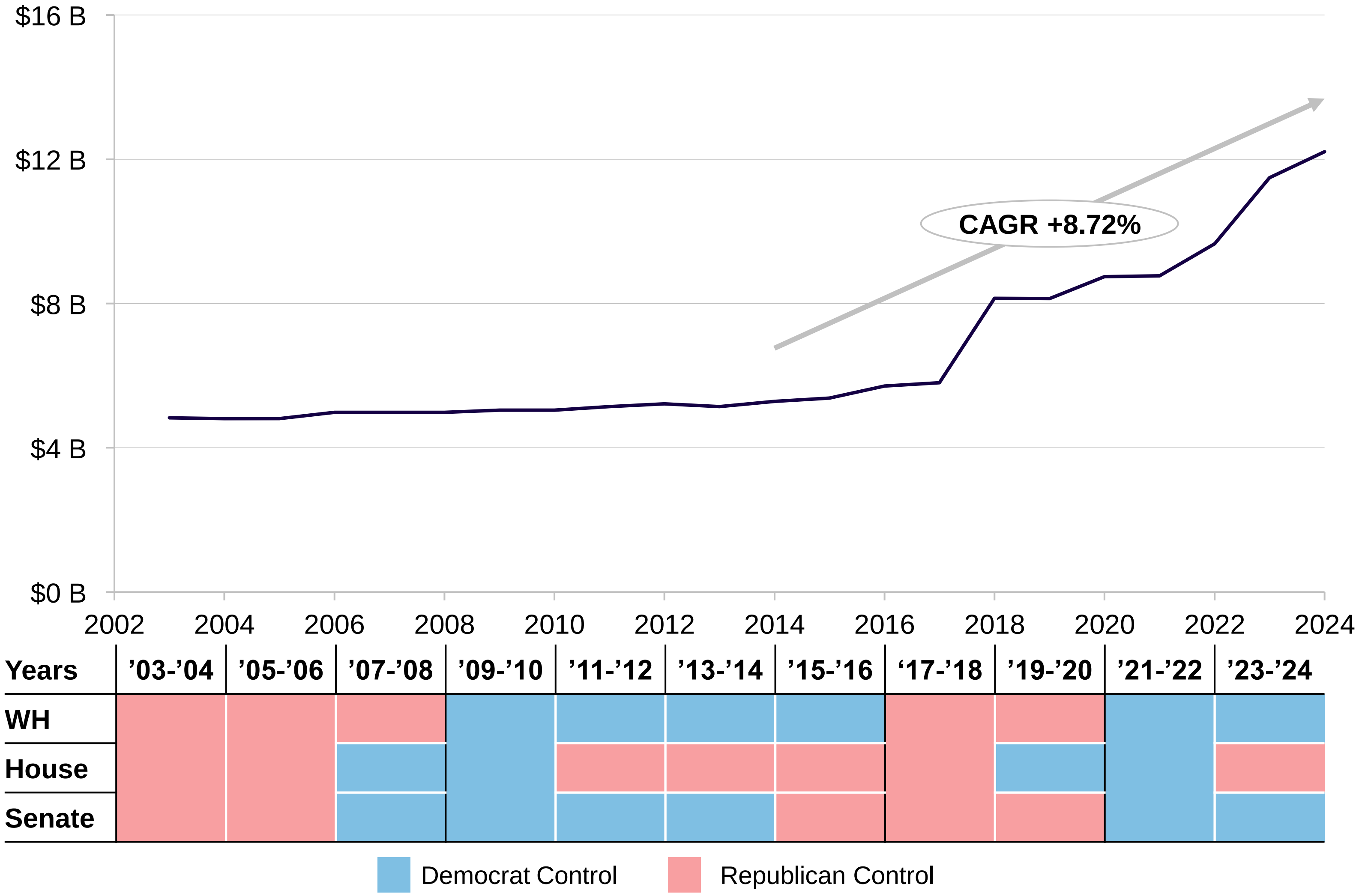
	State	Max Monthly Co-Pay *(Family of 4)*	% of Family Income
Low Cost	1. Oregon	$15	0.4%
	2. Arkansas	$28	0.5%
	3. Maryland	$39	<0.1%
High Cost	46. New Hampshire	$662	7%
	47. Connecticut	$729	10%
	48. Wisconsin	$1,184	15%

Source: Congressional Research Service, Administration for Children and Families, Capstone analysis *Recent HHS rulemaking will require states to set a maximum 7% co-pay cap by 2026.
**Two states have higher co-pays than shown here – but for families making in excess of 85% SMI. Essentially, those higher caps are linked to state supplemental funding rather than federal CCDF funds.

Agenda

CCDF has grown under both Democratic and Republican administrations; the largest recent increase occurred under a unified Republican government

CCDF Growth From 2003-2024* and Party Control of Federal Government



- From 2014 to 2024, CCDF funding, including CCES and CCDBG, grew from roughly $5.29 billion to $12.21 billion – an 8.72% compound annual growth rate (CAGR).
- The most significant jumps in discretionary CCDBG include:
  - — FY 2018: The Republican governing trifecta during Trump’s first administration increased CCDBG funding from $2.86 billion in 2017 to $5.21 billion.
  - — FY 2023: The Democratic governing trifecta during the Biden administration increased CCDBG funding from $6.17 billion in 2022 to $8.02 billion (appropriations were passed before the 118th Congress began).
- In 2021, CCES permanent annual appropriations increased from $2.92 billion to $3.55 billion by way of the American Rescue Plan Act (ARPA).
- Notably, congressional appropriations for CCDBG far exceeded President Trump’s budget requests for the program in both FY 2018 and FY 2019.

Source: Congressional Research Service, First Five Years Fund, Capstone analysis

*CCDF funding displayed in the graph excludes three separate one-time stimulus fund infusions from the American Recovery and Reinvestment Act of 2009; the Coronavirus Aid, Relief, and Economic Security Act of 2020; and the American Rescue Plan Act of 2021.

CCDBG enjoys bipartisan support; program aligns with traditional Republican support for school choice and local control

CCDBG Funding Has Broad Support Among Both Parties

- Both Republicans and Democrats recognize the need for significant federal funding for affordable child care as a means of supporting child development and parent workforce flexibility.
- CCDF's programmatic administration aligns well with Republicans' longstanding priorities on the primacy of state and parental authority in education. Republicans also support the work requirements that are part of the family eligibility criteria for child care vouchers.
- In the last several years, Democrats and Republicans have authored "Dear Colleague" letters to appropriations leadership to encourage appropriators to maximize funding for CCDBG to the extent possible.

Republicans Have Led Recent CCDBG Reauthorization Efforts

- Republicans have led recent efforts to reauthorize the CCDBG Act. In the last several sessions of Congress, Republican senators introduced CCDBG reauthorization bills.
- The proposed legislation would not fundamentally overhaul the program, but it would make adjustments that are largely favored by private child care providers. Key proposed changes include allowing states to service families above 85% of their SMI with CCDF funds and pushing states toward cost-modeling to establish provider payment rates.
- We expect Republicans to re-introduce CCDBG reauthorization bills in this Congress.
- Democrats have also proposed reauthorization of CCDBG under their Child Care for Working Families Act. That proposed legislation would increase CCDBG funding significantly.

Timeline of Recent CCDBG Funding Increases and Reauthorization Efforts

2014 — The CCDBG Act of 2014, introduced by Sen. Barbara Mikulski (D-MD), passed the Senate with a 96-2 vote and reauthorized the CCDBG program. The reauthorization expired in 2020, but CCDBG continues to be funded through annual appropriations.

2018 — The Republican-controlled Congress doubled discretionary CCDBG funding for FY 2018. Funding jumped by ~$2.4B to ~$5.26B.

2022 — The CCDBG Reauthorization Act of 2022 was introduced by Sen. Tim Scott (R-SC) and co-sponsored by seven additional Republican senators.

2023 — Congress once again authorized a significant increase to CCDBG funding between FY 2022 and FY 2023. Funding in FY 2023 for CCDBG increased by $1.86B to ~$8.02B.

2024 — The CCDBG Reauthorization Act of 2024 was introduced by Sen. Deb Fischer (R-NE) and co-sponsored by five additional Republican senators.

Source: First Five Years Fund, Capstone analysis

The annual appropriations process requires bipartisanship given the composition of Congress and often encounters delays—necessitating the use of CRs

Option 1: Successful Passage of Traditional Appropriations Bills

- If Congress succeeds in passing traditional appropriations bills for FY 2026, we believe CCDBG will likely escape cuts given its enduring bipartisan support—e.g., the Trump administration is reportedly planning to flat-fund the program.
- The process is subject to a Senate filibuster (i.e., requires 60 votes), meaning that at least seven Democratic senators will have to join all Senate Republicans to enact new discretionary spending levels in the 119th Congress.
- Delays in passing new FY 2025 appropriations bills by way of these political challenges led to the passage of a series of CRs that extended FY 2024 spending levels for the entire year.

Option 2: Passage of a Continuing Resolution (CR)

- Given the current politics around federal spending, we believe there is a strong chance that appropriators fail to reach an agreement for new spending levels prior to the end of the fiscal year and instead extend FY 2024 spending levels through a series of CRs.
- These extensions could either cover part of FY 2026 until the traditional appropriations bill passes, or the entire year (similar to what occurred for FY 2025).
- Although a CR does not feature explicit spending directives for all agency programs like traditional appropriation bills, CCDBG is an exception. CCDBG's funding level is explicitly directed by Congress in the CR.
- If Congress does not pass an appropriations bill, and cannot come to an agreement on a CR, the government shuts down.

FY 2026 Timeline For Timely Passage By Fiscal Year End; Delays Expected

April to May	April to June	June to July	July to Sept.	Sept.
President Trump's Budget Request The appropriations process will kick-off in earnest after the White House submits the President's Budget Request to Congress. Although this is due in February, it's typically submitted closer to April/May following a new administration.	**Appropriations Hearings** House/Senate appropriators—through 12 subcommittees—analyze budget requests from the president and congressmembers and hold hearings to inform their draft bills. CCDBG is covered by the Labor, Health and Human Services, Education, and Related Agencies Subcommittee in the House and Senate.	**Markups & Floor Consideration** Each appropriations bill goes through "mark-up" proceedings where it is adjusted through debate/amendments through both the subcommittee and committee. Next, each bill is voted on—following debates and amendments—by its respective chamber.	**Conference Negotiation** Differences between House and Senate versions of the bills are reconciled through a conference process.	**Final Floor Consideration** Reconciled versions of the bills are finally voted on by each chamber.

Source: US House Committee on the Budget, EducationCounsel, Capstone analysis

Capstone believes that CCDBG will see flat or modestly increasing funding for FY 2026

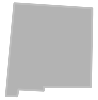
Capstone's Rationale for Flat-to-increasing CCDF Funding Outlook

- If Congress is unable to reach an appropriations deadline and establish a new budget for FY 2026, the government will likely be funded under a continuing resolution. That continuing resolution would fund CCDBG for FY 2026 at the same level agreed to in the FY 2024 budget, amounting to flat funding.
- If Congress agrees to a new budget, Capstone strongly believes that CCDBG will see flat or even modestly increased FY 2026 funding. We do not expect any reduction in funding for FY 2026 in a budget agreement, relative to existing levels.

	Factors Contributing to Capstone's Flat Funding Outlook
Previous House Budget Proposals	• In July 2024, the House of Representatives Labor, Health and Human Services, Education and Related Agencies Appropriations Subcommittee marked up a proposed FY 2025 budget. The committee, which was controlled by Republicans, proposed significant education-related spending cuts. Despite making cuts elsewhere, the subcommittee's budget actually included a modest $25M increase in spending for CCDBG, suggesting significant support for the program even in a broader budget rife with cuts.
Leaked HHS Budget and President's "Skinny Budget"	• A recently leaked HHS budget proposal indicates that the president plans to recommend flat funding for CCDBG. While the leak is not the president's official budget recommendation, it does indicate that the president will not call for program cuts. • Further, the recently released "skinny budget" from the President does not include a planned cut to CCDBG funds
Republican Appropriations Letters	• In May 2024, 34 Republicans signed onto a letter to the House appropriations subcommittee in charge of assigning funding levels for CCDBG that encouraged "robust funding" for CCDBG. The letter stressed the importance of access to high-quality child care as a "linchpin" of the economy and highlighted the link between quality child care and improved children's outcomes. A similar letter was also circulated in 2023. • We believe that letter and the large number of Republican signatories is indicative of significant support for flat or even increased CCDBG funding within the Republican conference.
School Choice Executive Order	• The president's "Expanding Educational Freedom and Opportunity for Families" executive order, which stressed the importance of school choice, specifically highlighted CCDBG and the potential to expand choice options in ECE. The CCDBG program is among the most obvious and successful examples of the use of federal funding to support parental choice in education. Given the program's alignment with traditional conservative principles around education and federal funding—maximizing parent involvement and choice, coupled with light-touch federal regulation and local program flexibility—we believe a presidential recommendation to reduce funding for CCDBG is unlikely.

Source: First Five Years Fund, The White House, The Washington Post, Capstone analysis

Some state governments appropriate additional funds to expand their CCDF programs

States		State Funding Details
	**Massachusetts**	• In FY 2025, Massachusetts approved a permanent appropriation of $475M for its Commonwealth Cares for Children (C3) grants. These C3 grants are not purely limited to providers that participate in the state's CCDF program. However, the formula for determining the annual grants is more generous if providers serve a large percentage of high-poverty families or participate in the state CCDF program. Gov. Maura Healey (D) has proposed maintaining C3 grants at $475M for FY 2026.
	**Maine**	• In 2023, Maine's legislature allocated additional general revenue funds to the state's CCDF program to support raising the eligibility threshold for families from 85% of the state median income to 125%. The added general revenue funds allow the program to serve additional families in the state.
	**New Mexico**	• In 2022, 70% of voters in New Mexico supported a constitutional amendment to direct a portion of the state's Land Grant Permanent Fund – an educational endowment funded by investment income, land leases, and non-renewable energy royalties – to early childhood education. As a result of the additional funding, New Mexico has expanded eligibility to participate in the state's CCDF program to families at or below 400% of the federal poverty line and currently waives family co-pays for all eligible children.
	**Vermont**	• In 2023, Vermont's legislature passed Act 76, which is intended to generate $125M in supplemental revenue for the state's CCDF program through a modest increase in payroll taxes. As a result of the additional funds, Vermont has increased the family income threshold for state CCDF participation, making ~80% of the state's families with children eligible to participate. The state has also increased child care provider reimbursement rates with Act 76 funds.
	**Washington, DC**	• Washington, DC, recently instituted an additional tax on residents earning more than $250,000 annually to fund the Early Childhood Educator Pay Equity Fund. The fund is allocated to DC childcare providers to help increase compensation for early childhood educators. Funds are not solely limited to providers that participate in CCDF.

The above examples of state supplementation of federal CCDF appropriations are non-exhaustive. Other states can and do allocate additional funds to their state's CCDF program, budgets permitting, to increase program participation, reduce family co-payments, or to increase provider payment rates. The Texas legislature, for example, is considering allocating an additional $100M over two years to supplement existing federal CCDF funds.

Source: Capstone analysis

Agenda

SCOPE OVERVIEW

EXECUTIVE SUMMARY

CCDF OVERVIEW AND STATE IMPLEMENTATION

CCDF APPROPRIATIONS AND OUTLOOK

DOGE, ED, AND PROPOSED HEAD START CUTS

The Department of Education has little impact on federal child care funding

ED's Importance for Center-Based ECE is Highly Limited

- **ED has Little Input on Child Care Policy or Funding:** The Department of Education is tasked with administering federal policy for K-12, higher education, and continuing education.
  - — The major funding streams administered by ED, including Title I, IDEA, and the student loan portfolio are not allocated to early childhood education.
  - — Administrative disruption of ED, irrespective of funding, has virtually no bearing on federal early childhood education policy.
- **Cuts to Preschool Development Grants Have Little Provider Impact:** ED and HHS jointly implement a small preschool development grant (PDG) program to support state implementation of best practices in early childhood education. Total funding in FY 2024 for the PDG program was $315M.
  - — Cuts to the PDG program have been proposed but would have a negligible impact on child care providers. Program funding is used to bolster state implementation of childcare best practices, but does not benefit centers directly.
- **Special Education Identification:** Funding for Part B* and Part C of the Individuals with Disabilities Education Act (IDEA) supports early identification and intervention for toddlers and young children with learning disabilities. Importantly, despite the political rhetoric around ED, we do not anticipate any disruption of IDEA funds.
  - — If IDEA funds are disrupted, Capstone expects limited impacts for private child care providers. IDEA Part B and C funds are given to states to support the identification of students with disabilities and appropriate interventions, but do not directly fund childcare providers.

Reallocation of ED Programs to HHS Unlikely

- **Legislative Reorganization of ED Faces Steep Opposition:** Proponents of dissolving the Department of Education have generally proposed moving key education programs to HHS and the ACF. Significant reorganization and new ACF responsibilities could theoretically create confusion and a less responsive ACF regarding child care policy matters.
  - — Dismantling ED requires congressional action. We do not believe there is any path in the Senate to passing legislation that would dismantle ED. Any vote on the subject would require a 60-vote majority in the Senate, including some Democratic support. Democrats are staunchly opposed to ED's dissolution.

Capstone Perspective

- ED does not handle early childhood education policy, nor does it have a role in administering funding sources for early childhood education like the CCDF.
- It provides some limited funding to help identify infants and young children with special needs and small amounts of funding to support best practices in state development of childcare systems.
- Capstone believes ongoing efforts by the Trump administration to dismantle ED have no bearing on federal early childhood education policy and funding, and therefore, virtually no impact on private child care providers.

Source: Capstone analysis, Department of Education Organization Act, Department of Education

*IDEA Part B also deals with older, school-aged children but some portion of the funds are geared towards children aged 3-4

Staff changes at HHS have not and should not impact the flow of subsidy funds

Recent Staffing Cuts to HHS Do Not Impact Fund Flows

- **Widespread Layoffs Impact ACF:** According to reporting, the Trump administration has laid off 35%-40% of staff at the Office of Child Care within ACF, the organization tasked with technical implementation of CCDF.
  - Cuts began in February, with an initial round of layoffs that reportedly impacted 20% of the office. Subsequent layoffs have occurred as part of the wider downsizing of HHS—reducing the overall staff count a reported 35%-40% relative to staffing levels under the previous administration.
- **Half of Regional Offices Closed:** HHS has also closed half of the 10 regional offices tasked with supporting state lead agencies in administering CCDF. Those closures, however, should not impact the flow of CCDF funds to states, as those funds are delivered directly from HHS rather than being routed through regional offices.
  - The closures may reduce technical support for program implementation for impacted states and reduce the dissemination of research. Capstone does not expect that those closures will impact providers.

Limitations to DOGE's Authority

- **DOGE Impact on Funding:** While DOGE can and has aggressively moved to eliminate contracts and personnel from cabinet-level agencies, it does not have the authority to withhold congressionally appropriated funds for child care programs.
- **CCDF Not a Project 2025 Target:** CCDF is not mentioned in Project 2025, the Heritage Foundation's conservative blueprint for a Trump administration. To the extent that DOGE is helping operationalize elements of Project 2025, we believe the lack of mention or focus on child care vouchers suggests that the program is not a target for DOGE.

School Choice EO Favors CCDBG Program

- **School Choice Executive Order Favors Private Providers:** In January, President Trump released an EO that stressed his administration's commitment to school choice. The EO called on HHS to provide guidance to states to expand the use of CCDBG funds for private providers.
  - CCDBG funds are already available to private providers. We believe the EO underscores support for private centers to continue and even expand participation with CCDBG.

Capstone Perspective

- Recent cuts to HHS have targeted the Office of Child Care within the ACF and regional centers, which assist state agencies with technical questions regarding CCDF implementation. The cuts, however, do not impact the flow of CCDF funds from HHS to state agencies that oversee voucher programs.
- Congress has and will continue to control annual appropriations for the CCDBG component of CCDF. There is no unilateral presidential authority to establish or impact CCDF funding levels.
- Despite personnel upheaval at HHS, we believe that CCDF funding for state agencies and eventually for providers should remain uninterrupted. Additionally, we believe CCDF is not a reform target of conservative think tanks, DOGE, or the president.

Source: White House, Project 2025, Washington Post, Capstone analysis

The President's budget did not explicitly call for cuts to Head Start; Congress unlikely to approve Head Start cuts

Recent Disruptions to Head Start and Proposed Cuts

- **Temporary Disruptions to Head Start from Funding Freeze:** In late January, the Trump administration released a memo announcing a sweeping freeze on federal grant programs, including Head Start. Administration officials later clarified that Head Start funding should not have been frozen, and the memo was later rescinded. Head Start agencies and grantees, however, reported being temporarily locked out of grant systems and facing slower-than-expected release of funding.
- **Head Start Funding Reportedly Threatened in Trump Budget Proposal; Congress Controls Funding:** There are conflicting recent reports about the President's plan for Head Start in his budget proposal. Initial reporting and a leaked HHS budget document indicated that President would attempt to eliminate Head Start. The more recent release of the President's "skinny budget" was silent on Head Start and anonymous administration representative indicated that budget did not include any suggested reduction in Head Start funding. In FY 2024, Head Start was funded at $12.27B and continues to be funded at that level for FY 2025 under the existing continuing resolution.
  - — A proposal from President Trump would not eliminate Head Start – only Congress can eliminate Head Start funding through the traditional appropriations process. If no agreement on appropriations is reached and government spending continues under a continuing resolution, then funding levels for Head Start would remain level.
  - — While elimination of Head Start was outlined in Project 2025 and has some support in conservative circles, we expect significant advocacy and political pushback to any proposed elimination of the program.
  - — If Congress does elect to cut Head Start, it could reallocate Head Start funds to a more favored child care program – like CCDBG.

For Profit Child Care Providers Not Primary Beneficiaries of Head Start

- **Grantees Primarily Non-profits:** While for-profit entities can participate as Head Start grantees and run Head Start programs, most programs are run by non-profit organizations.

Capstone Perspective

- Despite recent concerns, the administration's initial budget to Congress included no explicit recommendation make cuts to Head Start.
- The program has existed for 50 years, and funding has generally increased. A closure of the program would be a significant departure from historical norms and recent bipartisan support for maximized Head Start appropriations.

Source: Administration for Children and Families, Washington Post, National Head Start Association, Capstone analysis

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