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MTF Bulletin

March 20, 2025

Fiscal Year 2026 Budget: A Closer Look

Early Education and Care Funding in the Governor’s Budget

The Healey-Driscoll administration filed its Fiscal Year (FY) 2026 budget proposal on January 22nd. Total spending in the Governor’s proposal equals \$62.07 billion, an increase of \$4.3 billion (7.4 percent) compared to the FY 2025 General Appropriations Act (GAA). When compared to the administration’s estimated spending level for FY 2025, the Governor’s FY 2026 budget increases spending by \$1.8 billion (2.1 percent).

Early education and care programs are funded at \$1.7 billion in Governor Healey’s budget, a \$158 million or 10 percent increase compared to the FY 2025 GAA. Our accounting of early education spending also includes funding managed by the Children’s Trust. This increased investment for early education and care is notable, because in FY 2026 state budget writers face considerable fiscal constraints as revenue collections have plateaued since pandemic-era highs. This brief will provide a closer look at the early education investments proposed by the Governor in the administration’s FY 2026 operating budget, as well as in the Fair Share supplemental budget which the Governor also filed on January 22nd.

EEC Funding Across FY 2026 Budget and Fair Share Supplemental Budget

Program	Appropriation
FY 2026 Operating Budget - Governor	\$1,700.9
Commonwealth Cares for Children (C3)	\$475.0
Child Care Financial Assistance (CCFA)	\$1,063.8
Commonwealth Preschool Partnership Initiative (CPPI)	\$17.7
Child Care Resource & Referral (CCR&R) Agencies	\$20.0
Career Pathways Program	\$5.0
Head Start State Grants	\$18.5
Fair Share Supplemental Budget	\$150.0
Commonwealth Preschool Partnership Initiative (CPPI)	\$50.0
Workforce, Affordability, and Quality Supports	\$100.0

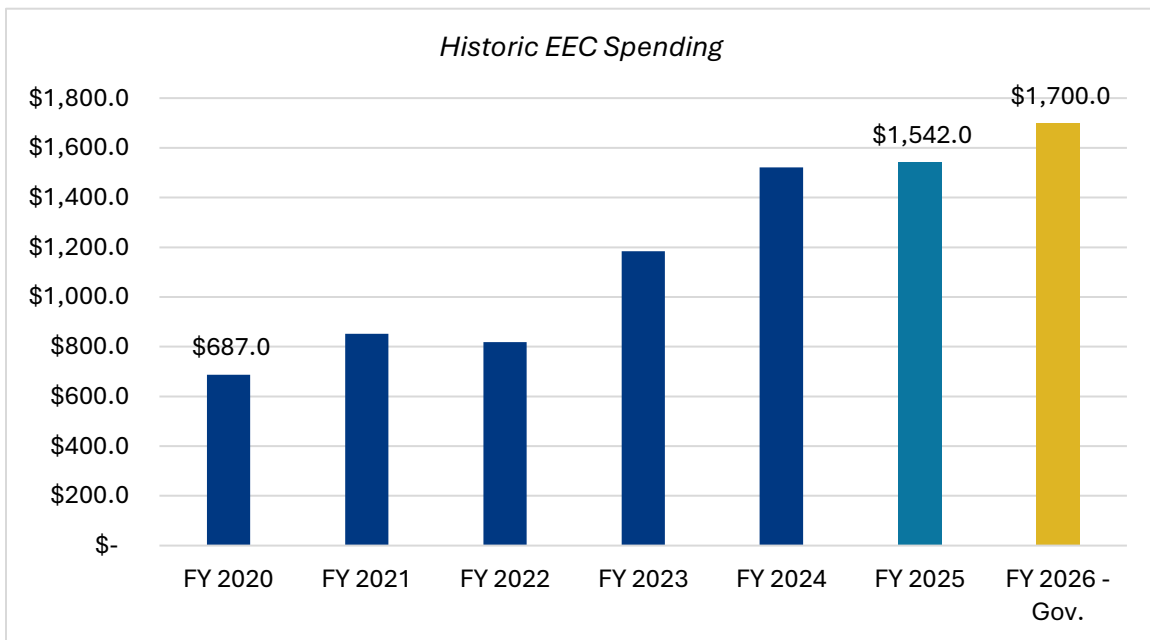
\$ in millions

Taking a Step Back

Early Education Spending Since FY 2020

Between FY 2020 and FY 2025, spending for the Department of Early Education and Care (EEC) more than doubled, increasing by \$855 million. During this same time period, the only other area in the state budget that has seen this proportionate level of growth is housing, demonstrating the increased importance the state has placed on early education since the pandemic.

The growth in EEC’s funding can primarily be attributed to increased investments that began during the pandemic – especially the Commonwealth Cares for Children (C3) grant program – as well as new investments supported by the Fair Share income surtax, and increased funding for Child Care Financial Assistance (CCFA) reimbursement rates.

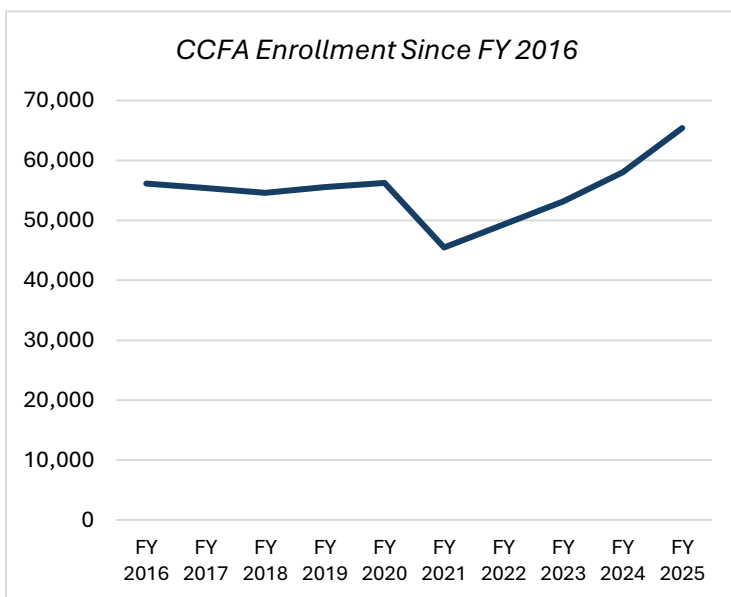


[For additional information on historic funding trends for EEC and recent funding increases, please see MTF’s Legislative Session Preview: Early Education and Care.](#)

Child Care Financial Assistance (CCFA) – Caseload and Rate Increases

CCFA is the largest EEC program funded through the state budget. CCFA provides financial support to lower-income families and families engaged with the Department of Transitional Assistance (DTA) and the Department of Children and Families (DCF) so that they can afford and access care for their children. Across the three programs, CCFA is currently serving roughly 63,000 children. Providers who serve CCFA children, either through voucher agreements or contracts with the state, receive reimbursement from the state on a per-child basis.

Over the past few years, EEC has undertaken [reforms to the CCFA system](#), intended to make the program more accessible and responsive to families and align reimbursement rates with the actual costs faced by providers. EEC has also made significant investments in the workforce and in program quality and completed a re-procurement of provider contracts for the first time in 15 years.



Data shown is average CCFA enrollment since FY 2016. FY 2025 data based on most recent publicly available data.

Enrollment growth has been seen in both the Income-Eligible and DCF/DTA CCFA programs. EEC data shows that when comparing October 2024 to October 2023, the income eligible caseload grew by roughly 1,800 children and the DCF/DTA caseloads grew by around 4,000 children collectively. Enrollment increases can be partially contributed to the larger caseloads for DCF and DTA childcare, and the re-procurement of contracts which caused some shifting in the Income-Eligible caseload as some children were transferred from contract slots to voucher slots if their programs did not participate in the re-procurement process.

Increases in CCFA funding over the past few years have largely been driven by the annualization of provider rate increases, which are important to improving the quality-of-care that programs are able to provide, but rates alone do not translate to increasing the number of children served. In addition to the re-procurement, EEC has also prioritized investing in program quality improvement efforts and workforce support.

Though CCFA is currently serving roughly 10,000 more children than before the pandemic, the Income-Eligible waitlist sits at around 37,000 children statewide and access for new families has been largely frozen. There has been significant progress in recent years, but

continued and sustainable growth of CCFA access will need to be tackled through intentional funding decisions coupled with solutions targeting other areas of the child care sector.

Commonwealth Cares for Children (C3) – A Historic Investment

C3 is the state’s operational grant program for early education providers. Originally a federal program created in 2021 to distribute federal child care stabilization funds from the American Rescue Plan Act (ARPA), C3 has since become an integral part of our state’s early education system. To date, Massachusetts is the only state in the country to continue to maintain their pandemic-era stabilization grant program with state resources.

Since C3 began:

- The number of early education programs has rebounded and is now five percent higher than pre-pandemic levels.
- Licensed capacity levels have also continued to increase, with EEC reporting that more than 17,000 slots have been added over the last two years systemwide.
- Educator compensation has grown by almost 20 percent in the past three years and educator retention has also seen an improvement, with turnover rates decreasing by six percentage points compared to two years ago.
- Accessibility and affordability have also grown, with programs in vulnerable communities less likely to report annual tuition increases.

Since becoming fully supported by state resources, C3 has consistently been funded at \$475 million through a combination of General Fund, trust fund, and income surtax revenues. The program was also codified into state law in the FY 2025 GAA. The codification language outlined a funding distribution formula for FY 2025, directing additional funding to programs that serve low- and moderate-income working families, which EEC is currently implementing for this fiscal year. More information on the FY 2025 C3 formula and the funding language included in the FY 2025 GAA can be found later in the brief.

The Early Education and Care Task Force – An Inter-Agency Approach

In addition to increasing investments in early education, Governor Healey signed an executive order in January 2024 which established an inter-agency task force on early education and care. The Task Force, which is tasked with ensuring that Massachusetts leads the nation in early education and care access, affordability, equity, and quality, is co-chaired by the secretaries of the Executive Office of Education (EOE), the Executive Office of Economic Development (EOED), and the Executive Office of Labor and Workforce Development (EOLWD).

The Task Force released its [Year One Report](#) on March 12th, which highlights major priorities and roughly 30 cross-secretariat recommendations including: continuing capital grants for center-based and FCC programs, expanding capacity for child care within affordable housing projects, integrating eligibility across CCFA and other public benefit programs, enhancing mental and behavioral health resources to meet the needs of children in programs – and more.

The work of the Task Force will now move into implementation of near-term and long-term recommendations in partnership with providers, families, activists, businesses, and philanthropy groups. MTF will continue to track Task Force progress going forward.

The Governor’s Early Education Budget

Early Education and Care Resources

Early education investments in Governor Healey’s budget rely on resources from the state’s General Fund, the income surtax, and an operational grant trust fund; with C3 relying on all three sources. The Governor is also proposing using the surtax to support current CCFA capacity levels, which require \$192 million more in resources than provided in the FY 2025 GAA. The chart below outlines non-General Fund resources proposed by the Governor compared to the FY 2025 GAA. In total the Governor recommends using \$488 million in non-General Fund resources to support early education programs in FY 2026, a decrease of \$90 million compared to the budget signed into law last July.

Surtax & Trust Fund Resources for EEC in the Operating Budget

Funding Source/Program	FY 2025 GAA	FY 2026 – Gov.
Income Surtax	\$278.0	\$373.0
Commonwealth Cares for Children	\$175.0	\$275.0
Child Care Financial Assistance	\$98.0	\$98.0
Other EEC	\$5.0	-
High-Quality & Affordability EEC Trust Fund	\$200.0	\$0.0
Commonwealth Cares for Children	\$200.0	-
Operational Grant Trust Fund	\$100.0	\$115.0
Commonwealth Cares for Children	\$100.0	\$115.0
Total Non-General Fund Resources	\$578.0	\$488.0

\$ in millions

Spotlight: EEC Trust Funds

- **High-Quality and Affordability EEC Trust Fund:** Created in FY 2023 with surplus tax revenue collections and was initially funded at \$490 million.
 - Was used to support C3 in FY 2024 and FY 2025.
 - After the FY 2025 GAA was signed into law, the estimated remaining balance in the trust fund was \$65 million.
- **EEC Operational Grant Trust Fund:** Created in FY 2025 to receive collections from a new [online lottery program](#) which was also created in the FY 2025 GAA.
 - The FY 2025 GAA appropriated \$100 from this fund for C3, however online lottery collections are not expected until mid-FY 2026.
 - To fund the account, the FY 2024 closeout supplemental budget transferred \$150 million of surplus surtax revenue to the trust fund to support ongoing C3 funding.

[Initial estimates suggest that an online lottery would generate between \\$75-\\$100 million in new revenue for the state once fully implemented. In FY 2025 collections are not anticipated from online lottery. However, remaining resources in the High-Quality and Affordability EEC Trust Fund and the current balance of the Operational Grant Trust Fund appear to provide sufficient funding to cover planned spending for C3 in FY 2025 and FY 2026.](#)

As mentioned above, the Governor also filed a supplemental budget to distribute surplus Fair Share collections from previous fiscal years. The supplemental budget appropriates \$1.32 billion in surplus surtax revenues currently held in the Education and Transportation Innovation and Capital Fund. Early education receives \$150 million in the supplemental budget to go towards Commonwealth Preschool Partnership Initiative (CPPI) expansion and broad workforce, affordability, and quality improvement initiatives. [For more information on the mechanics of the income surtax and Fair Share spending proposed by the Governor, see MTF's recent report.](#)

Though the supplemental budget may follow a different timeline than the FY 2026 budget, it will follow the same path through the Legislature and should be kept in mind as both proposals go through the budget process.

Spotlight: Fair Share Supplemental Budget

In the Governor's supplemental spending bill, education receives 35 percent (\$462.5 million) of the available resources and transportation receives 65 percent (\$857.7 million). However, as emphasized by the administration, when this funding is considered alongside their FY 2026 operating budget recommendation, total surtax spending is divided equally between the two unique sectors.

Early Education and Care Spending

Total early education spending in the Governor’s FY 2026 budget equals \$1.7 billion, roughly 10 percent higher than EEC spending in the FY 2025 GAA. The Governor includes key investments in C3, CCFA, CPPI and other areas. The charts below show program appropriations in the Governor’s FY 2026 budget and in the Fair Share supplemental budget.

EEC Spending Breakdown in the FY 2026 Budget

Program	FY 2024 GAA	FY 2025 GAA	FY 2026 – Gov.	v. FY 2025 GAA
Department Administration	\$59.1	\$80.3	\$54.9	-\$25.4
C3	\$475.0	\$475.0	\$475.0	=
<i>General Fund</i>	\$250.0	-	\$85.0	
<i>Trust Funds</i>	\$225.0	\$300.0	\$115.0	
<i>Income Surtax</i>	-	\$175.0	\$275.0	
CCFA Base Funding	\$753.8	\$773.8	\$965.8	+\$192.0
DCF/DTA	\$346.6	\$356.6	\$448.2	+91.6
Income-Eligible	\$407.2	\$417.2	\$517.6	+100.4
CCFA Income Surtax	\$50.0	\$98.0	\$98.0	=
CPPI	\$15.0	\$17.5	\$17.7	+\$0.2
CCR&Rs	\$20.0	\$20.0	\$20.0	=
Head Start State Grants	\$17.5	\$18.5	\$18.5	=
Career Pathways	\$10.0	\$5.0	\$5.0	=
Total Spending	\$1,522.2	\$1,542.2	\$1,700.9	+\$158.7

\$ in millions

EEC Spending in the Fair Share Supplemental Budget

Program	Gov.
CPPI	\$50.0
Workforce, Affordability, and Quality Supports	\$100.0
Total Spending	\$150.0

\$ in millions

Commonwealth Cares for Children (C3)

The Governor funds C3 at \$475 million, level-funding the operational grant program for providers for the third year in a row. As outlined above, C3 was codified in the FY 2025 GAA and outside section language included specific reporting requirements and a tiering

structure for FY 2025. The Governor’s budget does not include any additional reporting requirements for the program.

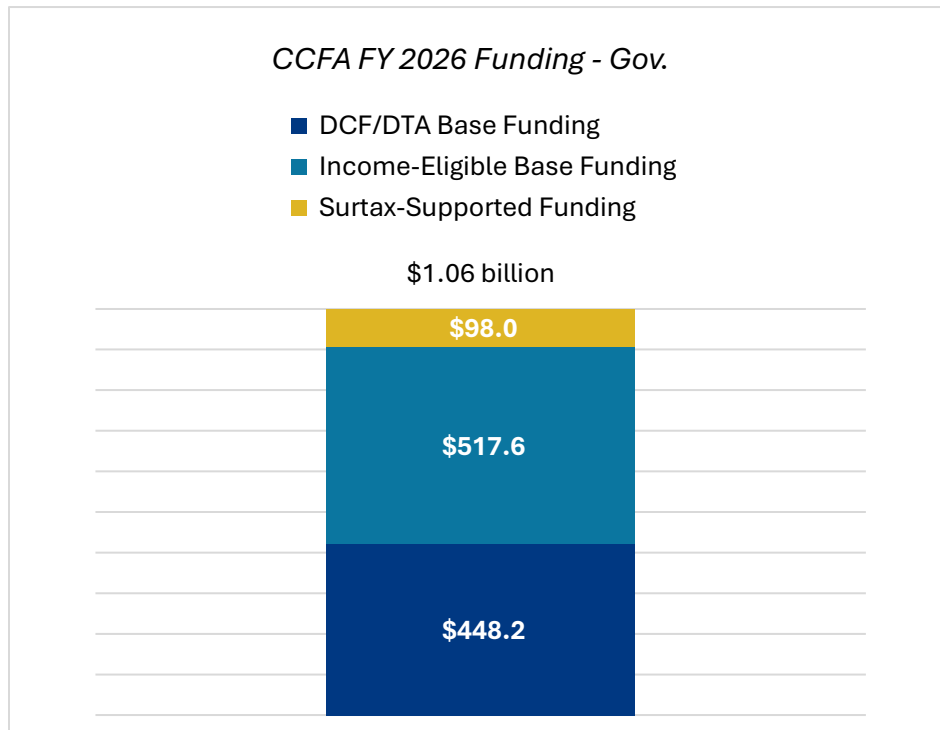
Once again, the Governor uses multiple funding sources to support C3.

- \$275 million from the income surtax.
- \$115 million from the Operational Grant Trust Fund.
- \$85 million from the General Fund.

The EEC High-Quality and Affordability Trust Fund is not used to support C3 in the Governor’s proposal. However, in order to ensure that C3 is fully funded in FY 2025 and FY 2026, it is possible that the administration utilizes this fund and other mechanisms to offset the delay in revenue collections related to standing up an online lottery system.

Child Care Financial Assistance (CCFA)

CCFA is funded at a total of \$1.06 billion in the Governor’s budget when combining surtax investments along with base funding. Though the funding level proposed by the Governor represents a significant nominal increase for CCFA compared to the FY 2025 GAA, the proposed funding is not expected to expand capacity.



Increased program costs are important to consider when analyzing the Governor’s funding proposals for FY 2026. Estimated spending levels for the DCF/DTA and Income-Eligible

programs, shown in the chart below, are expected to come in above FY 2025 appropriated levels. Therefore, the funding proposed in the Governor’s budget for CCFA will be sufficient enough to maintain the current CCFA caseload and continue current provider reimbursement rate levels, but will not result in a re-opening of the Income-Eligible waitlist and no additional funding is proposed for further rate increases.

Comparing CCFA Appropriations to Estimated Spending Levels

	DCF/DTA	Income-Eligible
FY 2025 GAA	\$356.6	\$417.2
FY 2025 Est. Spend	\$408.9	\$537.3
FY 2026 – Gov.	\$448.2	\$517.6
Gov. FY 26 v. FY 25 GAA	\$91.6	\$100.4
Gov. FY 26 v. FY 25 Est. Spend	\$39.3	-\$19.7

\$ in millions

Other Notable Early Education Investments

CPPI is funded at \$17.7 million in the Governor’s operating budget and receives an additional \$50 million in the Fair Share supplemental budget to expand the program over multiple years.

Other key early education investments like state grants for Head Start, the Career Pathways program, and the Child Care Resource & Referral Agencies (CCR&Rs) are level funded in the Governor’s budget.

Notably, the Governor’s budget does not include funding for the EEC loan forgiveness and EEC scholarship programs that were each funded at \$7.5 million in the FY 2025 GAA.

Key Questions for the House and Senate

As the House and Senate now begin their own budget development processes and consider action on the Fair Share supplemental budget, several questions related to early education should be top of mind:

- ***What does Governor Healey’s proposal for CCFA funding mean for child care access and how will the Legislature respond?***

Despite a nominal increase, the funding proposed by Governor Healey for CCFA in FY 2026 is only sufficient to maintain current CCFA capacity levels. The current Income-Eligible caseload would continue to receive assistance but new Income-Eligible

families will likely not be able to come off of the Income-Eligible waitlist and the waitlist will likely continue to grow.

As in past years, the Legislature will need to carefully balance the goals of increasing access, quality, and affordability in the system. It will also be important to consider the impacts of expanded eligibility of Income-Eligible CCFA on the system as a whole. Language passed in the FY 2025 GAA expanded Income-Eligible CCFA eligibility up to 85 percent of State Median Income (SMI), however challenges in funding and system capacity have left many of these families uncertain of their ability to actually access assistance through CCFA, though they are now eligible. The Legislature will need to take into account both the need to increase supply and the need to expand access as they begin budget deliberations for FY 2026.

- **Will the Legislature propose or create any new workforce support initiatives in light of the recommendations put forward by the EEC Inter-Agency Task Force?**

One of the main priorities of the EEC Task Force is to build a robust workforce ecosystem that supports the growth and wellbeing of educators and providers. The Task Force's report highlighted important work already being undertaken by the state through the development of a new credentialing system and career ladder, associated salary recommendations and through the support of programs like C3, Career Pathways, and free community college that are helping move this work forward. The report also made several new inter-agency recommendations around the workforce including:

- Exploring options to expand enrollment in affordable health care and retirement benefits for early education staff,
- Working with the business community and municipalities to provide early education staff with access to individual and business discounts, similar to those found in the K-12 sector,
- Identifying additional opportunities to increase compensation for early educators, and explore developing a stipend resource for educators participating in state funded workforce development programs.
- Coordination between EEC and the Executive Office of Labor and Workforce Development (EOLWD) to develop apprenticeship models that support early educators in entering the profession and building their professional skills to advance in the field.

There is certainly potential for the Task Force report to spark new conversations and ideas in the Legislature that become incorporated into budget negotiations. At the event announcing the release of the report, speakers repeatedly acknowledged the importance of strengthening and growing the early educator workforce.

- **Will the Legislature propose additional funding or program requirements for C3?**
If funded at \$475 million in FY 2026, C3 will have been funded at the same level for three fiscal years. While the maintenance of this funding is certainly positive during a time of plateauing revenues in the state budget, it is also true that costs have gone up significantly for providers in the past few years and there may be calls from the field to increase funding levels for C3 given rising costs and rising program participation.

In the FY 2025 budget, the Legislature included specific program requirements and funding formula provisions for C3 which EEC is now implementing in FY 2025. A new formula has been created to direct resources especially to providers serving vulnerable populations, particularly children receiving CCFA. Though it is possible that the Legislature may want to include additional program requirements in statute through the budget, it is important that EEC remain able to analyze and evolve the program going forward to ensure that it remains most effective. As the department is still currently in the midst of implementing a new formula and soliciting feedback from providers, additional requirements may cause unintended consequences and unnecessary inefficiencies.

FY 2025 C3 Funding Tiers

	GAA Requirements for FY 2025	FY 2025 EEC Formula Tiers
Equity Adjustment Tier 1	50.5% of C3 funding must go to providers with enrollment including at least <u>25% children receiving CCFA or at-risk children or Head Start/Early Head Start children.</u>	<ul style="list-style-type: none"> • Providers who serve 25% or more children receiving CCFA • Head Start/Early Head Start programs • <i>Programs located in very low opportunity areas</i>
Equity Adjustment Tier 2	28.4% of C3 funding must go to providers with enrollment <u>between 1% and 25% children receiving CCFA.</u>	<ul style="list-style-type: none"> • Providers serving 1%-24% children receiving CCFA • <i>Providers where at least 25% of children receive non-CCFA scholarships covering at least 50% of tuition costs</i>
Equity Adjustment Tier 3	21.1% of C3 funding must go to providers serving <u>no children receiving CCFA.</u>	<ul style="list-style-type: none"> • Providers who do not qualify for Tier 1 or Tier 2 • <i>Providers whose CEO compensation ratio exceeds 30:1</i>

- **How will the Legislature employ surtax revenue, and the supplemental budget, to support early education? What is the right approach for using surplus surtax resources for early education going forward?**

Since FY 2024, the total amount of actual and proposed surtax spending across the operating budget and the Governor's Fair Share supplemental budget totals \$5.57 billion. Of that, approximately 53 percent has been dedicated towards education and 47 percent towards transportation. Early education has received 16 percent of actual and proposed surtax spending to date with the maintenance of C3 and CCFA taking on a large share of early education surtax resources. It will be important to watch how the House and Senate approach funding ongoing operating costs versus one-time and capital-related projects and how they choose to allocate the funds in the Innovation and Capital Fund through the supplemental budget.

It would be most sustainable going forward for budget writers to focus spending in the supplemental budget towards one-time or capital projects when possible because that is the intended use for above-cap surtax collections. Though potentially necessary in the short-term, allocating these funds towards ongoing programs could place EEC in a difficult position in the future as above-cap surtax collections are likely to plateau in future years. Expanding EEC's capital grant program for family child care and small center providers is one example of a potential use for these surplus funds which would have lasting positive impact on the system but not create a situation of continued reliance on one-time funding.

- **What are the potential impacts of federal funding decisions on early education funding in the state?**

There has been increased attention in recent months on the impact of federal funding decisions on state early education funding in light of the new Trump administration. Massachusetts receives funding from the federal government to support CCFA through the Child Care and Development Block Grant (CCDBG). In FY 2024, Massachusetts received roughly \$195 million from the CCDBG to support CCFA which translates to about 20 percent of EEC's budget.

While there have been concerns in the child care community about decreases being made to the CCDBG, it is important to understand the mechanics of these funds. Because CCDBG funding flows through the state's General Fund, a decrease in CCDBG would not necessarily result in a direct cut to EEC's budget or to CCFA. In times of revenue decline or funding cuts, budget writers must determine how to respond, and if the federal government were to cut a certain percentage of the

CCDBG, the state has the ability to reallocate state funds to fill gaps in CCFA if it so chooses. Unfortunately, Head Start programs would be directly impacted if federal Head Start funding were to be cut because these grants flow directly to programs rather than through the state budget. MTF is continuing to monitor actions on the federal level and at the time of this report, much is still unknown but we will continue to track movement on these issues going forward.