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## MTF Bulletin

March 24, 2026

### FY 2027 Budget: A Closer Look

#### *Early Education and Care Funding in the Governor's Budget*

On January 28<sup>th</sup>, the Healey-Driscoll administration filed its Fiscal Year (FY) 2027 budget proposal. The Governor's \$63.36 billion spending proposal for FY 2027, increases spending by \$2.3 billion (3.8 percent) above the FY 2026 final budget, or General Appropriations Act (GAA). On the same day, the Governor also filed a \$1.15 billion supplemental budget proposal to appropriate surplus surtax revenue from the Education and Transportation Innovation and Capital Fund for additional education and transportation investments.

The Department of Early Education and Care (EEC) is funded at \$1.9 billion in Governor Healey's budget, an increase of \$182 million (10.6 percent) compared to the FY 2026 GAA. In the context of a more restrained approach to spending growth due to economic and federal uncertainty, this continued investment in early education programs is notable. This brief will provide a closer look at the early education investments proposed by the Governor for FY 2027 and pose important questions for the next stage of budget development.

#### *Highlights: EEC Funding for Major Programs in the Governor's FY 2027 Budget*

Program	Appropriation
Child Care Financial Assistance (CCFA)	\$1,220.8
Commonwealth Cares for Children (C3)	\$475.0
Commonwealth Preschool Partnership Initiative (CPPI)	\$37.0
Child Care Resource and Referral (CCR&R) Agencies	\$20.0
Head Start State Grants	\$20.0
Career Pathways	\$3.0
<b>Total Funding for the Department of EEC</b>	<b>\$1,883.6</b>

*\$ in millions*

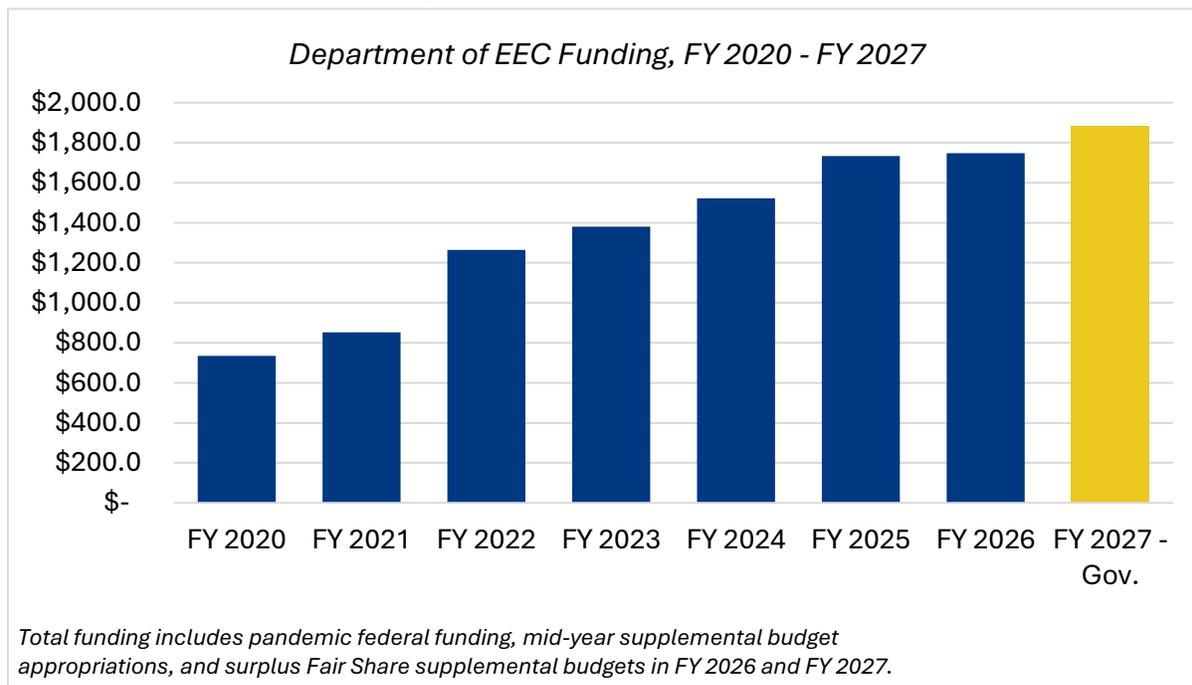
On March 18th, the House voted on their version of the Innovation and Capital Fund supplemental budget, proposing \$1.29 billion in supplemental spending for education and transportation. We will note House supplemental proposals relevant to EEC in this brief

where applicable, however, we will be able to more deeply understand the House proposals once they take up their FY 2027 operating budget next month.

### Taking a Step Back

#### *Early Education Spending Since FY 2020*

Early education funding has more than doubled since FY 2020, increasing by over \$1 billion from FY 2020 to FY 2026. This increase was initially driven by an infusion of federal dollars during the pandemic, however, since federal pandemic funds have been depleted, state resources have replaced and augmented the difference.



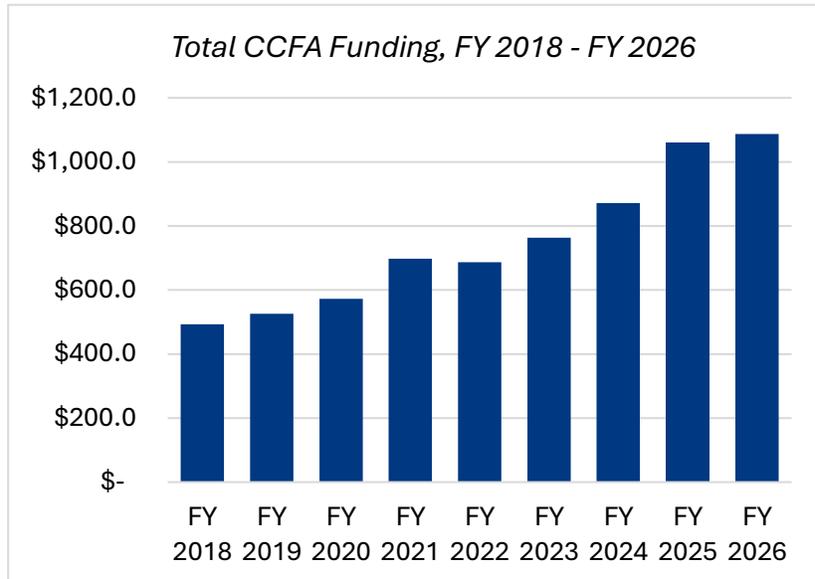
The growth in EEC’s funding can primarily be attributed to the creation of the Commonwealth Cares for Children (C3) grant program and increased investment for the Child Care Financial Assistance (CCFA) program, including provider reimbursement rate increases.

The Fair Share income-surtax has also been an important source of revenue for early education investment since its implementation. Since FY 2024, roughly \$1 billion in surtax has been used to support EEC programs and initiatives. Two trust funds, the Operational Grant Fund and the EEC High-Quality and Affordability Fund have also been used to support EEC programs in recent years. The Operational Grant Fund was created in FY 2025 to collect revenue from the state’s new online lottery program to support the funding of C3. Though originally filled with surplus surtax resources, the fund is expected to begin collecting revenue from iLottery by FY 2027.

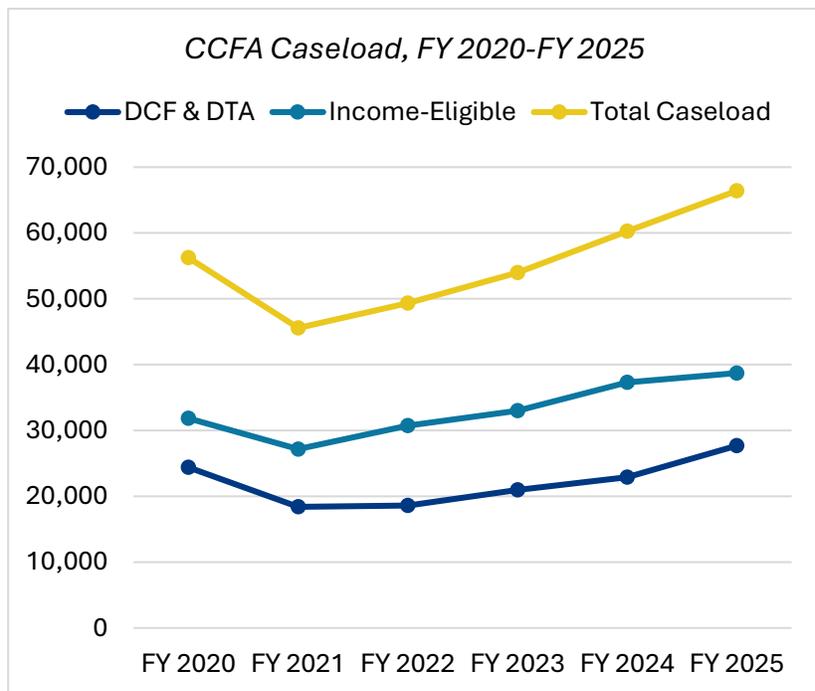
#### *Child Care Financial Assistance – Access for Our Most Vulnerable*

[Child Care Financial Assistance \(CCFA\)](#) is the state’s biggest child care program, helping over 65,000 eligible children in Massachusetts access affordable high quality child care.

Since the pandemic, the state has made an effort to serve more families through expanding access funding for CCFA and more closely meeting the true cost of care for providers through increasing reimbursement rates. Between FY 2018 and FY 2026, total funding allocated for CCFA more than doubled, increasing by \$595 million, or 120 percent.



Though the state receives reimbursement from the federal government for some portion of CCFA costs, the majority of the cost of CCFA is left to the state.



In recent years, rate increases and funding to maintain existing capacity have made up the majority of the increase in CCFA funding. For more information on the factors driving increased CCFA funding, please check out [MTF’s EEC 101 Fact Sheet](#) on funding and access. CCFA

as a whole was essentially level-funded in FY 2026 and new voucher access for children on the Income-Eligible caseload has been virtually closed for more than 2 years now.

The challenge of balancing the current Income-Eligible caseload, the annualization of reimbursement rates, and expected increases to the DCF/DTA caseload with the desire to

move more children off of the waitlist and into care will be a key feature of the discussions around CCFA funding in the FY 2027 budget cycle.

*Commonwealth Cares for Children – Operational Support for Our Providers*

[Commonwealth Cares for Children](#) (C3) is the state’s operational grant program for child care providers and the biggest change in the way that the state supports the early education system in decades.

C3 helps providers better cover their foundational operating costs so that they can increase educator compensation, invest in high-quality initiatives, and expand access without passing on greater costs onto families. About 80% of all licensed child care providers in the state receive C3 grants and the program has had a strong influence on the system as a whole: helping programs expand capacity, increasing educator wages, decreasing educator turnover rates, and helping to delay tuition increases for private pay families.

The impact of C3 on the sector has been impressive. However, continued level-funding of C3 over time, combined with increasing operational costs for programs and growing numbers of providers in the system, puts an increasing strain on C3 and the program’s continued ability to create positive impact in the sector. Since July 2025, new child care programs that have opened have been unable to access C3 grants.

**Early Education Funding in the Governor’s 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 two state trust funds for early education. The Governor proposes using the surtax to support her three largest areas of investment for early education – CCFA, C3, and the Commonwealth Preschool Partnership Initiative (CPPI).

The chart below outlines the distribution of resources proposed by the Governor compared to the FY 2026 GAA. In total, the Governor recommends using \$895 million in non-General Fund resources and \$988.6 million from the General Fund to support early education programs in FY 2027. This division of resources speaks to an increasing reliance on the surtax and other sources outside of the General Fund to support continued investment in early education.

*Resources for EEC in the Governor’s FY 2027 Operating Budget*

Funding Source/Program	FY 2025 GAA	FY 2026 GAA	FY 2027 – Gov.
<b>Total Non-General Fund Resources</b>	<b>\$578.0</b>	<b>\$811.0</b>	<b>\$895.0</b>

Income Surtax	\$278.0	\$661.0	\$636.0
High-Quality & Affordability Trust Fund	\$200.0	\$0.0	\$184.0
Operational Grant Trust Fund	\$100.0	\$150.0	\$75.0
<b>Total General Fund Resources</b>	<b>\$964.4</b>	<b>\$1,040.8</b>	<b>\$988.6</b>

*\$ in millions*

The Governor’s Innovation and Capital Fund supplemental budget proposal, filed on the same day as her FY 2027 operating budget proposal, transfers \$150 million of surplus income-surtax resources to the High-Quality and Affordability Trust Fund which is then used to support CCFA in her operating budget. This proposed transfer is reflected in the High-Quality and Affordability Trust Fund column in the chart above.

The House’s version of the Innovation and Capital supplemental budget also includes the \$150 million transfer to the High-Quality and Affordability Trust Fund.

*Early Education and Care Spending*

Total early education spending in the Governor’s FY 2027 budget equals \$1.9 billion, including funding for the Children’s Trust. This funding level for the Department of EEC is roughly 10.6 percent higher than EEC spending in the FY 2026 GAA. The chart below summarizes key program appropriations in the Governor’s FY 2027 proposal, compared to prior years. In the following sections we will dive deeper in the Governor’s funding for CCFA and C3, as well as other notable programs.

*EEC Spending Summary FY 2025 GAA – FY 2027 Governor’s Budget*

Program	FY 2025 GAA	FY 2026 GAA	FY 2027 – Gov.
<b>Non-Income Surtax</b>			
Department of EEC Administration	\$80.3	\$57.0	\$61.3
Child Care Financial Assistance (CCFA)	\$773.8	\$965.8	\$976.6
Commonwealth Cares for Children (C3)	\$300.0	\$115.0	\$115.0
Commonwealth Preschool Partnership Initiative (CPPI)	\$17.5	\$5.0	\$5.0
Child Care Resource & Referral (CCR&R) Agencies	\$20.0	\$20.0	\$20.0
State Head Start Grants	\$18.5	\$20.0	\$20.0
Career Pathways	\$5.0	\$3.0	\$2.97
<b>Income-Surtax</b>			
CCFA	\$98.0	\$93.7	\$244.1
C3	\$175.0	\$360.0	\$360.0

CPPI	\$5.0	\$15.5	\$32.0
<b>Total EEC Funding</b>	<b>\$1,542.4</b>	<b>\$1,702.0</b>	<b>\$1,883.6</b>

*\$ in millions*

As mentioned above, the Governor’s FY 2027 Innovation and Capital supplemental budget included only one proposal related to early education, a \$150 million transfer of surtax revenue into the High-Quality and Affordability Trust Fund. In last year’s final supplemental budget, EEC received a total of \$45.5 million which was distributed between multiple programs and initiatives including CCFA, CPPI, and the Career Pathways program.

In addition to the proposed transfer to the High-Quality and Affordability Trust Fund, the House also includes an additional \$38.7 million<sup>1</sup> to support the early educator loan forgiveness program and income-eligible CCFA in their version of the supplemental budget. We will track how this additional funding complements the House’s approach to CCFA in their operating budget once that is released.

*EEC Investments in the Innovation and Capital Fund Supplemental Budget*

<b>Program/Use</b>	<b>FY 2026</b>	<b>FY 2027 – Gov.</b>	<b>FY 2027 – House</b>
<b>Total Surplus Fair Share Revenue</b>	<b>\$45.5</b>	<b>\$150.0</b>	<b>\$188.7</b>
FY 2026 CCFA Rate Increase	\$20.0	-	-
Early Educator CCFA	\$8.0	-	\$8.0
High-Quality & Affordability Trust Fund	-	\$150.0	\$150.0
Income-Eligible CCFA	-	-	\$23.2
Early Educator Loan Forgiveness	\$7.5	-	\$7.5
Other Investments	\$17.5	-	-

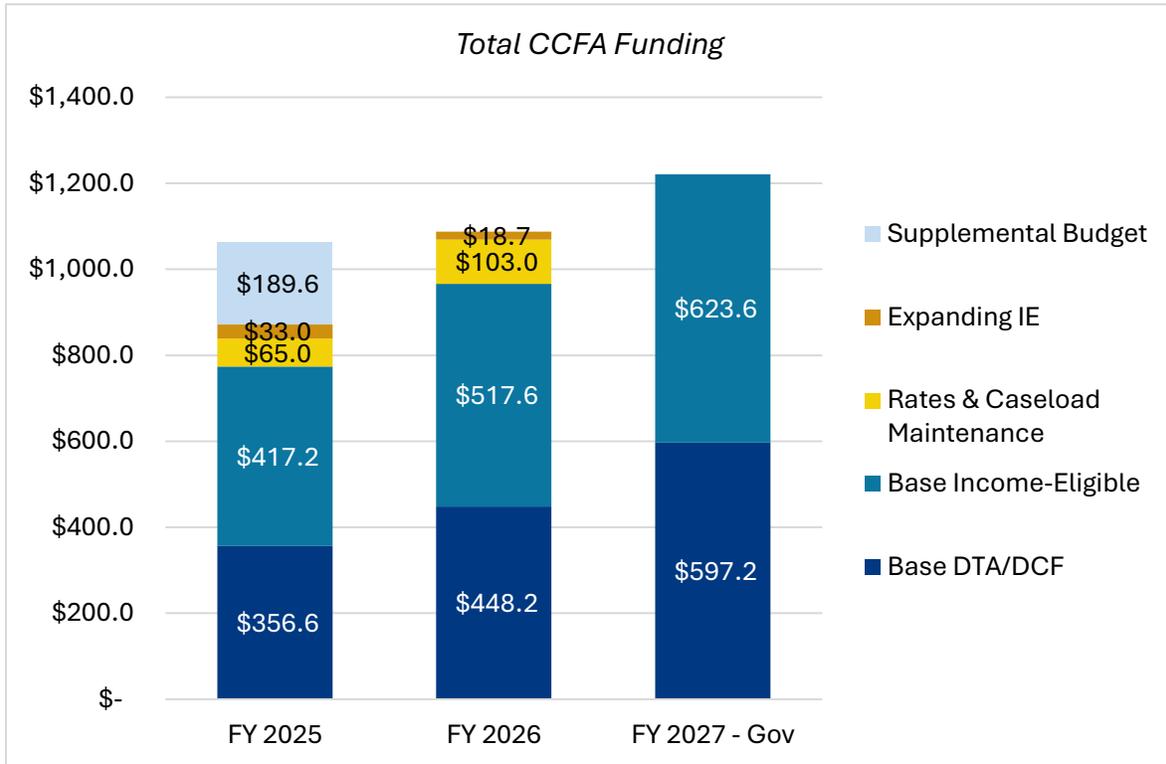
*\$ in millions*

Child Care Financial Assistance (CCFA)

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<sup>1</sup> This \$38.7 million investment by the House is included in one combined line-item in their supplemental budget, in the chart below we split this proposal out to show earmarked funding to income-eligible CCFA, early educator loan forgiveness, and early educator CCFA. Similarly, the funding included for EEC in the FY 2026 supplemental budget was consolidated into one line-item with several earmarks.

The Governor funds CCFA at a total of \$1.2 billion in her FY 2027 budget, \$597.1 million for the DCF and DTA CCFA programs and \$623.6 million for the income-eligible CCFA program.



When accounting for funding that was included for CCFA in last year’s Innovation and Capital supplemental budget, this is a \$133.3 million increase for the program compared to total funding provided for FY 2026. The Governor uses General Fund, income surtax, and trust fund resources to support her investment in CCFA. As demonstrated in the chart above, unlike in prior years, the Governor folds all CCFA funding into two main line-items.

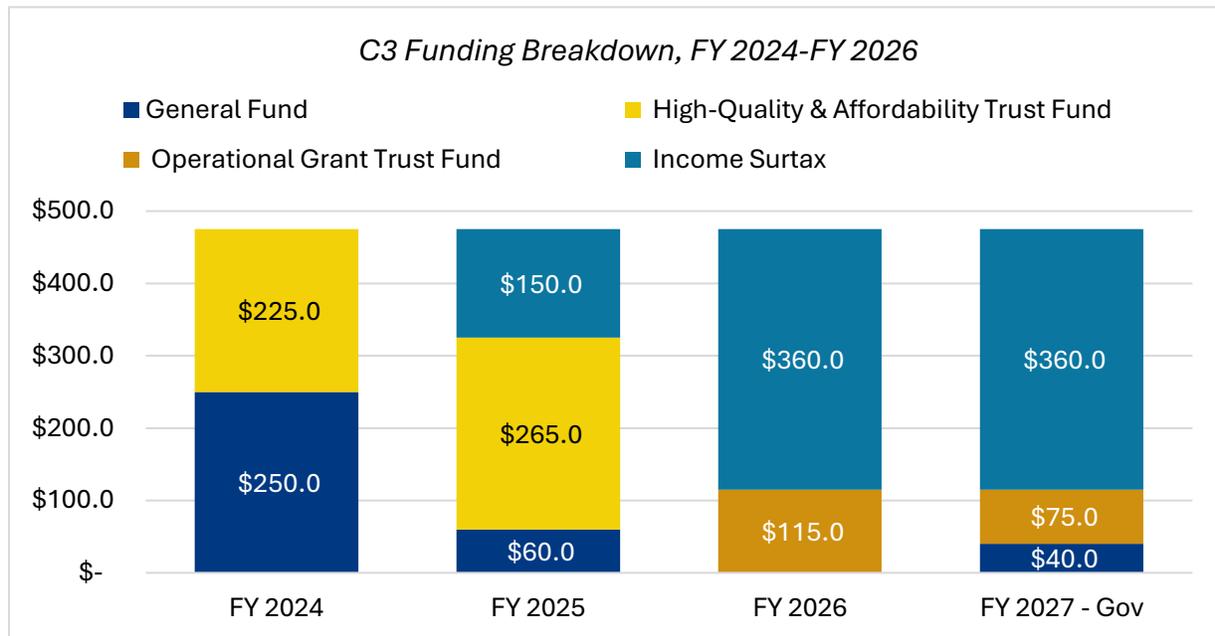
Though the Governor does not include separate funding to increase rates beyond FY 2026 levels and does not include targeted funding to reduce the income-eligible waitlist, the funding proposed by the administration would:

- Annualize prior rate increases, including the recently instituted FY 2026 increase.
- Provide funding to support anticipated increases to the DCF and DTA caseload.
- Allow for some new access for income-eligible siblings of children who are already receiving CCFA and others who fall under the “continuity of care” category.

According to data presented at the [February EEC Board meeting](#), the funding proposed by the administration would allow CCFA to serve an average monthly caseload of about 73,000 children.

## Commonwealth Cares for Children (C3)

The Governor's FY 2027 budget level funds the C3 program at \$475 million. The Governor proposes using a combination of funds from the General Fund, the income surtax, and the Operational Grant Trust Fund to support the program in FY 2027.



Of note in the Governor's proposal is the use of the Operational Grant Trust Fund. The fund was created through the FY 2025 budget to collect online lottery revenues and language directs that funding to the C3 program. The online lottery is a new revenue program for the state, and it will take some time for collections to grow over time. The current estimates are that the iLottery will collect over \$70 million in year one (FY 2027), \$180 million in year three, \$230 million in year 5, and over \$300 million in year ten. While a new source of revenue dedicated to C3 is helpful for planning, ultimately, it does not appear that iLottery would prove sufficient to cover the full cost of C3, at least not in the near-term. The Governor proposes using the full estimate of online lottery collections in FY 2027 (\$75 million) and relies largely on the income surtax to fund C3 at \$475 million.

C3 funding has remained at \$475 million since the state began funding the program entirely with state resources in FY 2024. We have also seen a shift of program funding away from state General Fund resources onto other sources like the income-surtax and state trust funds over the past two years. This demonstrates a key challenge for lawmakers and for the long-term sustainability of C3.

As mentioned above, and in MTF's recent [C3 Fact Sheet](#), continued level funding of C3 will limit the state's ability to continue to work towards the goals of attracting and retaining a

high-quality workforce, expanding access for children, and filling the gap between growing operating costs for programs and what families can afford.

#### Other Notable Investments

- **Commonwealth Preschool Partnership Initiative (CPPI) – Funded at \$37 million** in the Governor’s budget, \$16.5 million higher than the FY 2026 level. The Governor supports CPPI, including the Summer Step Up program, using \$5 million in General Fund resources and \$32 million in income surtax resources. CPPI is the main area in early education where we see meaningful expansion proposed by the Governor. The Governor’s funding level is understood to be sufficient to expand the program to the remaining Gateway Cities who are not yet participating in the CPPI program.
- **State Head Start Grants – Funded at \$20 million** in the Governor’s budget, level with the FY 2026 GAA. Head Start is largely funded by the federal government and federal funding for Head Start flows directly to child care programs rather than through the state budget.
- **Career Pathways – Funded at \$3 million** in the Governor’s budget, level with the FY 2026 GAA. Though the program is level-funded at first glance, EEC utilized some funding that was included in the state’s Innovation and Capital supplemental budget to provide additional funding to the program in FY 2026 so it is unclear whether the Governor’s funding levels include sufficient resources to fully support the program’s cost in FY 2027.

The Governor’s budget did not include funding that had been included previously to fund a scholarship program and a loan forgiveness program for early educators. As referenced above, funding for the loan forgiveness program was included in the House’s version of the Innovation and Capital Fund supplemental budget.

#### **Key Questions for the House and Senate**

- ***How will the House and Senate balance the goals of supporting access for families and support for providers through both CCFA and C3?***

*CCFA and C3 are the two largest child care programs in the state, now making up 89 percent of EEC’s budget, and both are central to increased state efforts to support affordability, access, provider stability, and system growth. For more information on the ways that CCFA and C3 work together both in theory and in practice, check out MTF’s [recent fact sheet](#).*

*With limited resources available for FY 2027, it will be interesting to see whether the House or the Senate propose increasing funding to these core programs. If they do, it*

should be with the clarity that the two programs do not exist in a vacuum. Increases to CCFA access must be done with C3 in mind and vice versa because the C3 formula directs additional funding to programs who serve larger shares of children receiving CCFA. For instance, an increase to the number of CCFA vouchers in the system but level-funding for C3 would limit the intention of the C3 formula and cause an implementation challenge for EEC. In that scenario, in order to increase funding to programs who are accepting new children with CCFA vouchers, C3 grants for other programs might face cuts.

- **What approach will the Legislature take for employing surtax revenue, including surplus surtax resources, for early education going forward?**

As discussed at the beginning of this brief, the income surtax has become an important source of revenue for early education since its implementation. The Governor proposes utilizing surtax revenue to support C3, CCFA, and CPPI in her FY 2027 budget and part of that investment is bolstered by surplus surtax resources as well. In the House's Innovation and Capital supplemental budget we see again a willingness to use surplus surtax resources to support CCFA. MTF cautions against using Innovation and Capital Fund resources to support operating costs for programs and increases in funding that will need to be annualized. In upcoming budget cycles, policymakers will have to reconcile with the fact that the Innovation and Capital Fund will see smaller deposits as a majority of the surtax has now been incorporated into the annual operating budget, therefore the use of these surplus resources to support ongoing programs will not be sustainable.

- **How does early education funding fit into the broader budget context and how will larger economic trends and federal action impact spending by the Legislature?**

The Governor's budget increases spending for early education by more than 10 percent while the Governor's total FY 2027 budget only grows by a little less than 4 percent. Like the Healey administration, the Legislature will have to close an [estimated FY 2027 budget gap](#) of greater than \$3.5 billion stemming from reductions in state revenue trends and increased spending pressures, while also contending with the impacts of federal actions, potential tax changes, and the larger national economic picture. All of these factors will have an impact on how the state sustainably invests in all areas, including early education. While we may see some specific policy or spending priorities arise, it is unlikely that the House or the Senate will be able to diverge significantly from the Governor's budget in a larger sense.