## Tracking Potential Impacts of Shifting Federal Funding on Early Care and Education

State early care and education (ECE) systems rely on multiple federal funding streams to deliver services to young children and their families. Shifts in federal funding and policy across the early childhood, K-12, and health sectors are likely to impact the availability, quality, and affordability of ECE. States have levers like allocating state funds or changing laws and rules to prepare for and, when possible, reduce how strongly children and families experience impacts of cuts. In order to identify potential actions, ECE leaders must be knowledgeable about the context of their state budget and policy related to these shifts.

This brief provides state leaders with examples of how shifts will impact the ECE funding and policy landscape, as well as questions leaders can ask to ensure ECE is included in state-level strategies to address funding gaps. The policy and funding shifts noted here are those that have been codified by the reconciliation bill passed by Congress on July 1, 2025 (also known as "OBBB") or that states may anticipate based on signaling through the President's Federal Fiscal Year 2026 (FFY26) budget request.

### Key Policy and Funding Shifts

| Federal Program | Shifts |
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| **Medicaid** | The reconciliation bill changes Medicaid eligibility, decreasing the number of children and families eligible for coverage. States must implement changes by 2027, but are permitted to introduce changes immediately. In addition, OBBB also changed states' ability to raise reimbursement rates for services and changed procedures related to the approval Section 1115 Waivers. These waivers are the vehicle for states to make home visiting a Medicaid-eligible expense.<br><br>**As a result of policy changes, about 7.8 million people will lose or become ineligible for Medicaid coverage. State's Section 1115 Waivers and reimbursement rates may also be impacted.** |

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| **Supplemental Nutrition Access Program (SNAP)** | The reconciliation bill immediately changes eligibility and requires states to fund a portion of SNAP beginning in 2027. Cost sharing requires most states to fund 5-15% of the program costs and 75% of administrative costs,[1] requiring states to allocate millions of new dollars to maintain SNAP benefits or to opt out of the program.<br><br>**The new provision for cost sharing by states and the new eligibility criteria will lead to fewer families and children receiving SNAP benefits.** |
| **Preschool Development Grant Birth-to- Five (PDG B-5)** | The Administration has proposed the elimination of the Preschool Development Grant B-5 in the FFY26 budget. Thirty-two states[2] receive PDG B-5 Grants to address various priorities related to ECE, including quality initiatives, infrastructure, and expansion or piloting of programs.<br><br>**The potential elimination of the PDG B-5 Grant will impact the amount of resources states have to build ECE infrastructure and innovate or expand programs.** |
| **Child Care and Development Fund (CCDF)** | Though CCDF is unlikely to receive significant cuts in the upcoming budgets, states recently experienced shifts within their CCDF allocations due to changes to the Free or Reduced Price Lunch counts used to determine funding. Though some states experienced no change or an increase in funding, many experienced last minute and unanticipated cuts to their revenue.<br><br>**CCDF allocation changes, when combined with the loss of COVID-19 funding, may mean that states roll back rate or service increases.** |

[1] Food Research and Action Center. (2025, July 24). *Shifting the Burden: How the Recently Passed Budget Reconciliation Package Reshapes SNAP and Strains State Budgets*. Retrieved from https://frac.org/blog/shifting-the-burden-how-the-recently-passed-budget-reconciliation-package-reshapes-snap-and-strains-state-budgets
[2] Administration for Children and Families. PDG B-5 State and Territory Maps. Retrieved from: https://acf.gov/ecd/pdg-5-state-map

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| **Head Start and Early Head Start (HS/EHS)** | Significant cuts to Head Start and Early Head Start are unlikely after initial signals that the program may be cut drastically or eliminated. These initial threats point to a need to continue to track funding for HS/EHS through the FFY26 budget process. In addition, potential permanent changes making undocumented children ineligible for HS/EHS services also threaten the number of children served by the program overall.<br><br>**Initial uncertainty and potential permanent changes to eligibility of undocumented children may impact the number of children and families enrolled in Head Start/Early Head Start.** |
| **Elementary and Secondary Education Act (ESEA) Grants** | The U.S. Department of Education (USED) recently delayed $6 billion in payments for school districts (see Navigating Uncertainty in Federal ESEA Funding for more details on this issue). Though the months-long delay has been resolved, State Education Agencies and districts are preparing for future reductions of federal funding, such as those proposed in the House FY26 Budget. In addition further delays in funding are expected due to significant reductions in the USED federal workforce.<br><br>**The four-week delay in the release of federal funding has set a potential precedent for the future uncertainty of federal funds for K-12 education.** |

## Potential Impacts on ECE

State contexts vary, but some possible impacts that ECE leaders may want to monitor include:

- **Reduced preschool funding**: School districts may reallocate funding used for cost sharing or district-funded pre-K (e.g., ESEA Title I, state funding) due to continued budget uncertainty.
- **Changes to child care rates or service levels**: As most states rely on federal funding for a majority of their child care budget, leaders may respond to uncertainty in federal funding by implementing cost saving measures such as a waitlist for child care subsidy or reductions to child care rates.
- **ECE classroom and provider closures**: Anticipated cuts or delays in federal education dollars may also lead school districts to realign budgets. Districts may choose to close schools that house pre-K or Head Start classrooms, leading to fewer slots available to families and children.

In addition, Medicaid changes may cause hospital systems or other health providers that provide early intervention or home visiting services to close locations or reduce services.

- **Reduced early intervention and home visiting funding**: Medicaid pays for services offered through early intervention for infants and toddlers with developmental delays and disabilities (i.e., IDEA Part C) and home visiting programs. Eligibility changes that result in less people insured by Medicaid will mean states must cover early intervention services with state funding. Coverage changes, as well as potential changes to the Section 1113 Waiver, will also cause disruptions to available funding for home visiting programs.
- **Decrease in children identified via coordinated eligibility processes**: States that use Medicaid or SNAP eligibility processes to determine eligibility or receive referrals for ECE programs, such as child care, will have fewer families entering programs through these avenues. This has impacts on how child care assistance and other ECE programs identify or make families aware of eligibility and enrollment processes.

## Additional Potential Impacts to Watch

- The reconciliation bill also impacts **federal student loans** by eliminating federal subsidized loans and restricting federal loans for "low outcome" (i.e., low wage) professions. As states increasingly promote degrees for ECE professionals, education leaders may see an impact on access to early childhood education degree programs.
- Changes to the Affordable Care Act (ACA) in the reconciliation bill and the expiration of ACA subsidies are likely to influence the **number of families and children with private insurance**. Most states rely on private insurance coverage to fund a portion of early intervention services and a smaller number use insurance for coverage of home visiting,
- The President has proposed elimination of the **Child Care Access Means Parents in School Program (CCAMPIS)** which provides awarded Institutions of Higher Education with funding to subsidize child care for students with children. Not all states have a significant number of Institutions of Higher Education that receive this discretionary grant program, but those with significant numbers of college students supported by this grant will likely see greater demand within their child care subsidy systems if this program is eliminated.

## Questions and Strategies for State Leaders

State leaders, including advocates, can do more than brace for impact. By asking the right questions and understanding how these cuts may impact states, state leaders can begin to develop strategies for their unique contexts. Below are questions that state leaders can use to build understanding, guide discussions with state agencies and policymakers, and ensure that children and families' access to quality ECE is addressed in broader state strategies to address gaps in federal funding.

| Potential Impact Area | Questions for Baseline Knowledge |
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| **State PreK** | • How many school districts offer PreK and how many slots are allocated through state PreK?<br>• How many and which districts offer PreK using district-level funding, including local funding or district-controlled federal funding (e.g., Title I) that can be used to fund PreK?<br>• What type of budget constraints are districts facing that may impact their ability to use funding to support PreK?<br>• Have any districts closed PreK classrooms for this school year or schools where PreK classrooms are located?<br>• When PreK classrooms are closed, how is this tracked? What happens to the previously allocated funding for PreK? |
| **Home Visiting** | • Does the state pay for home visiting with Medicaid or private insurance funding, and if so, for how many families and children?<br>• Does the state utilize its Medicaid Section 1115 Waiver to authorize funding for home visiting? If so, does the state agency responsible for Medicaid anticipate any change to its authorized waiver?<br>• What might be potential impacts to enrollment of children or families with young children in Medicaid or covered by private insurance as a result of these changes? How might this impact home visiting budgets or service levels?<br>• Does the state have plans to change state eligibility or to support potentially-impacted families and children to access state Medicaid or insurance services?<br>• Can the state maintain its current caseloads in programs with state funding, MIECHV funding, TANF funding or other sources?<br>• How has MIECHV service levels changed over the past 3-5 years? |

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| **Early Intervention** | • What proportion of early intervention services in the state are paid for via Medicaid and private insurance?<br>• What proportion of early intervention referrals might be impacted by loss of insurance?<br>• What might be potential impacts to enrollment of children or families with young children in Medicaid or covered by private insurance as a result of these changes? How might this impact early intervention budgets?<br>• What are the potential impacts of changes to insurance on service levels - either number of children served or level of service that children may receive?<br>• Are state early intervention reimbursement rates through Medicaid adequate to address services? Does the state have a plan to raise reimbursement rates before restrictions take effect in 2027? |
| **Child Care** | • Did the state experience significant changes as a result of the fourth quarter FFY25 shift in how allocations are changed?<br>• As ARPA funding expires and CCDF allocations are adjusted at the federal level, has the state modeled the impact of these changes to funding? Will there be any reductions to the budget and how will the state address reductions (e.g., service level decrease, reduction to reimbursement rates)?<br>• How many referrals or applications to child care subsidies come through other programs? How might this impact service levels?<br>• Does the state use TANF to support child care or other early learning programs? Is there an opportunity to allocate additional TANF funding to child care? |
| **Head Start/Early Head Start** | • Is the state leveraging its Head Start Collaboration Office or other ECE-focused staff to communicate with Head Start programs to understand any shifts in funding?<br>• How many Head Start/Early Head Start programs have federal monitoring visits this upcoming fiscal year, and do these programs anticipate any changes to their grants?<br>• Are there programs within the state currently in recompetition or making changes to their program funding (e.g., conversion of Head Start to Early |

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| | Head Start)? Do these programs anticipate grant renewal or approval of funding shifts?<br>● How is the potential change to eligibility for undocumented children impacted service levels or enrollment in Head Start/Early Head Start within the state? |