



# STRATEGIC FINANCING FOR EARLY CARE AND EDUCATION SYSTEMS

State and territory early care and education (ECE) systems operate across a complex landscape of programs, agencies, and funding streams. States and territories rely on a mix of federal, state, and local investments to deliver these services, but fluctuations in federal funding – from expiring COVID relief dollars, to shifting congressional priorities – have heightened the need for long-term, strategic financing approaches.

To help states and territories navigate this evolving environment, the National Governors Association’s Center for Best Practices (NGA Center) launched a project in January 2025 to bring together Governors’ offices, state and territory agency leadership, and subject-matter experts to explore strategies for safeguarding, aligning, and sustaining ECE systems. Throughout the project, states and territories explored opportunities to safeguard investments from fluxes in federal funding, strengthen coordination across agencies and programs, and build durable financing approaches to better meet the needs of children and families.

## **Shifting Landscape at the Federal Level**

On July 4, 2025, President Donald Trump signed into law House Resolution 1 (H.R. 1), titled the One Big Beautiful Bill Act (OBBA). The bill enacted broad fiscal and policy changes to major federal programs, including Medicaid and the Supplemental Nutrition Assistance Program (SNAP), with significant implications for state and territory ECE programs. Changes include adjustments to Medicaid financing and eligibility and new reporting processes and administrative costs for the SNAP program—both of which will increase costs for states and territories in operating these programs. These changes are not occurring in isolation—new cost-sharing requirements and administrative burdens in core safety net programs are forcing states and territories to make difficult tradeoffs across human services programs, including early care and education.

To help states and territories better understand the threats to ECE systems, NGA brought in presenters from partner organizations with subject-matter expertise to talk through specific challenges and offer perspectives on actions to mitigate pain points. Gina Adams from Urban Institute, Jessica Kirchner from the National Governors Association, Dr. Shantel Meek from the Children’s Equity Project, and Elisabeth Wright Burak from the Georgetown Center for Children and Families offered perspectives on changes to Medicaid and SNAP as well as ECE pain points.

### **Medicaid**

Medicaid funding makes up the largest source of federal funds that flow to states and territories, with the program representing around 55% of this amount. States and territories utilize Medicaid to fund home visiting programs, developmental screenings, maternal health support, behavioral health services, and care coordination that link children and families to early intervention and social services. States and territories are increasingly viewing Medicaid as a key tool for advancing ECE priorities by integrating physical, behavioral, and developmental supports.

Under H.R. 1, several changes to Medicaid carry [significant implications](#) for states and territories as they work to continue to support children and families. At a high level, H.R.1 changes to Medicaid include:

- New work requirements for Medicaid expansion adults, including more frequent eligibility checks;
- Restrictions on states’ ability to finance the state match through provider taxes
- Shortened the retroactive eligibility period for traditional Medicaid from 90 to 60 days, and from 90 to 30 days for expansion adults;
- Immigrant eligibility rollbacks;
- Changes to the Medicaid Eligibility Quality Control program that could result in financial penalties to states with certain eligibility error rates above 3% starting in FY 2030;
- Provider payment caps and restrictions; and,
- Eliminating incentives for states taking up Medicaid expansion

### SNAP

The Supplemental Nutrition Assistance Program (SNAP) is the nation's largest nutrition assistance program, providing monthly benefits to low-income households to support family well-being. SNAP serves a large share of infants, toddlers, and preschoolers, with significant support for healthier development and improved early learning outcomes.

[Changes to the SNAP program under H.R. 1](#) require states and territories with a payment error rate (PER) above a certain level to invest state funds in benefits. Under previous law, SNAP benefits were fully funded by the federal government with the administrative cost of the program being split 50/50 between the state/territory and the federal government. H.R.1 increased the administrative cost share, with states and territories now paying 75% (up from 50%). Additionally, states and territories could have to pay a share of the benefit cost, depending on their PER.

- 0-6% PER = state/territory pays 0% of benefits
- 6-8% PER = state/territory pays 5% of benefits
- 8-10% of PER = state/territory pays 10% of benefits
- 10+% of PER = state/territory pays 15% of benefits

### Early Care and Education Programs

While there were significant changes to social safety net programs in H.R. 1, funding for state and territory ECE programs remained relatively unchanged – despite concerns around shifting priorities around programs like Head Start or Preschool Development Grants. While federal ECE funding streams remain largely unchanged, the systems that support families and the ECE workforce are deeply interconnected with Medicaid and SNAP, meaning changes to these programs can produce downstream impacts on early care and education.

**Early care and education systems are often fractured and exist in silos.** Many states and territories do not have a centralized body to coordinate their ECE programs and goals, making budget constraints and cuts difficult to fully map out. Additionally, programs like CCDF, state/territory Pre-K, and Head Start all have different reporting mechanisms, eligibility requirements, and governance systems, making coordination challenging.

**State and territory ECE budgets are already constrained,** and new cost-sharing and administrative requirements on social safety net programs like SNAP and Medicaid could impact states and territories' ability to fully fund ECE priorities. There were no changes to the Child Care Development Fund (CCDF), a major source of federal funding for state and territory ECE systems, though some States saw a last-minute decrease in their federal revenue. With new fiscal liabilities for programs like SNAP, there will be less room in state and territory budgets to mitigate these shifts in funding.

**Expiring COVID-era relief dollars have put additional strain on state and territory ECE systems.** With the historic influx of federal dollars during the COVID pandemic, states and territories [prioritized investments in ECE systems](#) to help keep the sector afloat. Now, as these federal dollars expire, states and territories are looking for permanent sources of funding to continue support for their ECE systems.

**The ECE workforce relies heavily on social safety net programs** like Medicaid and SNAP. [Two out of every five child care employees rely on public assistance](#) to support their families, including programs like SNAP and Medicaid. Additionally, [close to one third of the ECE workforce are covered by Medicaid](#) – with an additional 13% uninsured and many others falling into a coverage gap (income too high to receive premium tax credits for ACA marketplace insurance while also not qualifying for Medicaid). Without these public benefits, state and territory ECE programs could lose additional workers from a sector that is already in crisis.

**Some states and territories use Medicaid or SNAP eligibility to determine eligibility** for programs like child care subsidies or referrals to the Head Start program. With a reduction or elimination of services, states and territories would face increased barrier to identifying families who are eligible for public benefits.

**Long-term planning and multi-year initiatives could be disrupted** due to the urgency of addressing changes to Medicaid and SNAP PER. State and territory legislatures and leadership may need to shift focus to mitigating the impact of Medicaid and SNAP changes, potentially delaying work on initiatives surrounding ECE priorities. Staff bandwidth to address ECE priorities will also be limited as the need for administrative attention on H.R. 1 implementation increases throughout 2026 and 2027.

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Beyond fiscal impacts, H.R. 1 also introduces **significant new administrative requirements**, which may increase the operational burden on state and territory agencies and straining existing staff capacity. These pressures are particularly critical for ECE systems which are already fragmented across multiple agencies.

In response to these fiscal, administrative, and workforce pressures, states and territories are prioritizing strategies that strengthen coordination, maximize existing resources, and build more durable early care and education systems.

### **State and Territory Priorities**

In October 2025, the NGA Center hosted nine states in Santa Fe, New Mexico, for a full-day Action Lab on ECE strategic financing. State teams from Arizona, Louisiana, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, Utah, and Washington participated in an intensive day of strategic planning, presentations from subject-matter experts, and facilitation from the NGA Center's Children & Families and Health teams on their ECE goals.

### **Governance Coordination**

Many states that attended the Action Lab talked about coordinating the management and oversight of ECE programs as a top priority to improve strategic financing for ECE systems. State and territory ECE systems are composed of state-administered and locally operated programs, often with different administrative procedures, eligibility requirements, target populations, and performance standards. On top of these complexities, many states and territories do not have a single entity to coordinate ECE programming – oversight is often split between multiple agencies or departments. States at the Action Lab focused on ways to break down silos in ECE programs and ensure smooth coordination in the event of a funding disruption.

Governors are also utilizing the power of convening to bring stakeholders together. While leaning on strategic partnerships, Governors are uniquely positioned to convene cross-sector leadership to align shared priorities and drive coordinated action. Governors are utilizing the power of the executive to stand up task forces, advisory councils, and public private initiatives to break down silos, elevate best practices, and build consensus on complex policy priorities.

In addition to coordinating governance, states and territories are exploring ways to strengthen partnerships with the Head Start program. Forty percent of the federal government's investment in state and territory ECE programs flows into Head Start, making up a significant portion of ECE ecosystems. Because Head Start programs across the country are locally operated, with direct funding from the federal government, states and territories have limited oversight over these programs. At the Action Lab, participants discussed ways to better partner with Head Start, through collaboration with State Advisory Councils on Early Childhood Education and Care (SACs), Head Start State Collaboration Offices (HSSCOs), and state/territory task forces on ECE.

Another priority for states and territories is aligning ECE with the K-12 system for smoother coordination. Aligning ECE with K-12 planning through shared governance structures, unified data systems, and coordinated budget development can help align funding priorities with long-term student outcomes. Additionally, by integrating ECE into K-12 accountability and planning, states and territories can demonstrate clear return on investment to the legislature for ECE funding.

### Sustainability of ECE Investments

Participants also highlighted prioritizing sustaining ECE investments and goals by shifting from short-term, grant-dependent ECE investments to more durable, system-level strategies. Embedding programs such as child care subsidies, workforce pathways, or additional pre-K slots into base budgets or multi-year strategic plans enables state and territory leaders to ensure long-term sustainability of ECE priorities. States and territories are also looking to diversify ECE funding streams by braiding and blending funding streams like CCDBG, TANF, philanthropic investment, or local revenue.

Participants at the Action Lab also explored strategic partnerships, identifying both traditional and non-traditional partners to help supplement budget lapses for ECE priorities. States and territories are looking into partnerships with the philanthropic community, chambers of commerce, and community-based partners to align stakeholders around shared goals and braid resources to support children and families.

### Investing in ECE Staff Compensation

Action Lab participants highlighted increasing ECE staff compensation as a top priority. As social safety net program funding faces uncertainty at the federal level, exploring ways to increase staff compensation was a top priority to mitigate potential erosions in the ECE sector. Some of the actions explored included strengthening career and credential pathways, aligning ECE and K-12 educator pay, incentivizing compensation through licensing or quality rating systems, and expanding benefits like professional development or categorical eligibility for the ECE workforce.

### State Spotlight

During the Action Lab, the NGA Center was joined by Secretary Elizabeth Groginsky from the [New Mexico Early Childhood Education and Care Department \(ECECD\)](#) along with a team from New Mexico. The New Mexico team highlighted their progress on aligning and strategically funding New Mexico's early childhood system. New Mexico presented their model for building a sustainable, coordinated, and well-financed early childhood system.

In New Mexico, ECECD is the cabinet agency solely responsible for leading and coordinating ECE programs. With a single entity coordinating ECE programs across the state, New Mexico has been able to streamline governance, reduce administrative duplication, and improve alignment across different state administered programs. For many states and territories, this serves as a model for how to create durable infrastructure to support children and families.

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*The National Governors Association Center for Best Practices (NGA Center) would like to thank the David and Lucile Packard Family Foundation for their generous support of this critical work. The NGA Center team would also like to thank the partner organizations and state teams that participated in the Action Lab to inform the content of this publication.*