Federal Investments: The Foundation for Early Learning and Care Programs

Our nation depends on child care. Today, nearly 70% of children ages five and under – 14.7 million children – have all available parents in the workforce. But the high cost and limited supply of quality child care have created serious challenges for many families. It has become increasingly clear that child care is essential to our economy, but the system of care that exists in this country is not equipped to meet the demand.

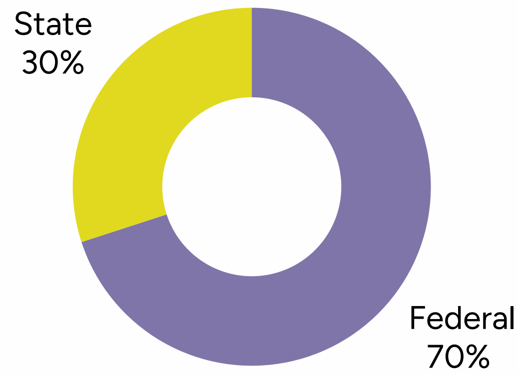
The federal government has historically been the entity providing the majority of public funding needed to undergird the country's complex and decentralized child care infrastructure. Over the past three decades, state and local policymakers have increased their investments in child care and early learning, motivated by the needs of parents, increased understanding of early brain development, as well as growing evidence on the strong economic returns on investment. Even with the growing support of committed governors, local elected officials, business, and philanthropy, investments made through key federal programs and tax credits to families and businesses continue to provide the crucial foundation upon which these state and local investments are built.

Annually, nearly $31.26 billion in federal funds go to programs that support the care and education of children from birth through age five, compared to roughly $13.39 billion in state spending on similar programs.

This brief explores how federal investments:

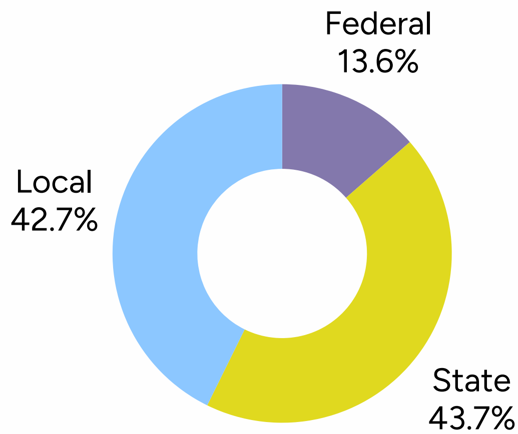
- Support a child care infrastructure that benefits children and families;
- Leverage state, local, and other investments;
- Offer stability in challenging economic times;
- Advance the research and development of innovative solutions; and
- Present opportunities through the tax code.

Early Learning and Care Funding



Federal investments provide a foundation for early learning programs while still allowing state policymakers the flexibility to design their own programs.

Public Schools, K-12 Funding



In K-12, state and local funds cover most of the operating costs for public schools. Federal funds typically supplement specific programs or services for underserved student populations.

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Federal Funds Support Child Care Infrastructure

Federal funding does not just finance direct early learning and child care services for children and families, it also supports the infrastructure that ensures the delivery of quality state, local, and privately-funded programs. This design establishes a flexible platform to foster and sustain state early learning and care systems.

The Child Care and Development Fund (CCDF), for example, is the primary federal funding source for child care, providing assistance that helps low-income, working families access care. CCDF consists of two federal funding streams: the **Child Care and Development Block Grant (CCDBG)** and the Child Care Entitlement to States (CCES). CCDBG is subject to annual appropriations, while CCES consists of entitlement (mandatory) funds under the Social Security Act. The entire program is often referred to as CCDBG.

The Administration for Children and Families (ACF) allocates CCDBG dollars to states, territories, and tribal entities (states) based on a funding formula. In addition to directly serving children, states use these grants to support child care infrastructure that benefits all working parents and their children—not just those receiving a subsidy. CCDBG is used to cover the costs of state child care licensing systems, which monitor health and safety in child care settings, as well as state-level systems that help cultivate the supply and quality of care. This foundation allows states to target their additional investments and align their needs and priorities.

Early Head Start-Child Care Partnerships (EHS-CCP) is another program that maximizes federal dollars by reaching more children across settings. Early Head Start provides comprehensive child development and family support services to infants and toddlers under age three, pregnant women, and their families experiencing poverty. EHS-CCP is an innovative, competitive federal grant program that allows Early Head Start grantees to partner with local child care providers, both in-home and center-based, to improve the quality of infant and toddler care while leveraging the flexibility of CCDBG to expand the capacity and benefits of these programs. The ability to bring together the strengths of Early Head Start and child care improves the quality of care across communities. Through these partnerships all infants and toddlers in the care of participating providers benefit from the Early Head Start model, which can be seen in program-wide improvements like children's dental and health services, facilities improvements, and professional development for teachers.

CCDBG and EHS-CCP together provide direct services to more than 850,000 young children each year. While only a fraction of eligible children are directly served with current funding levels, these federal programs provide a framework on which states design and build their early learning systems, benefitting millions more children. Federal programs like CCDBG and EHS-CCP lay the groundwork with health, safety, and quality standards, while leaving room for states and localities to meet families' unique needs.

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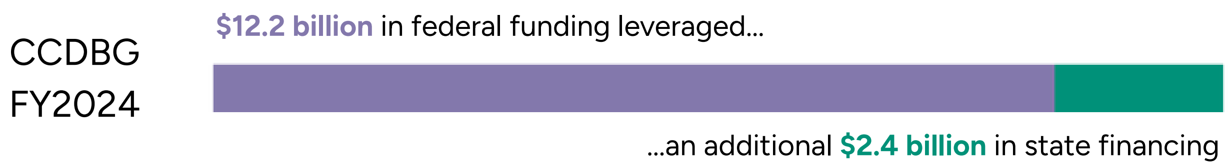
Federal Funds Leverage State and Local Investments

Federal funds not only account for the lion's share of early learning and care spending, but they also encourage state and local investments. Most federal spending for child care requires state matching and "maintenance of effort" (MOE) funds that states must invest to draw down federal funding. In FY 2024, $12.2 billion in CCDBG spending leveraged an additional $2.45 billion in state financing.



Some states spend more than the required match, and many would continue to invest even without these requirements. States can also leverage the **Temporary Assistance for Needy Families (TANF)** program funding to support state early learning and care initiatives. They may transfer up to 30% of TANF funds to CCDBG, allocate TANF funds directly to child care services (including Head Start and pre-K), and count spending on child care as contributions to TANF MOE requirements. In FY 2023, states used $8.38 billion of their federal TANF funds for early learning and care. Federal funding and policies are important in incentivizing and leveraging state investments in the face of competing fiscal priorities.

Head Start, the nation's original early learning program, has served as a backbone for many state and local systems. Head Start delivers comprehensive services to almost 800,000 children from birth to age five living below the poverty line each year. While each Head Start program is designed to meet the needs of the community it serves, all programs follow the highly regarded **Head Start Program Performance Standards (HSPPS)**. Many state and local preschool programs have modeled their standards after the HSPPS and all preschools using federal Title I education dollars must also meet the HSPPS. While Head Start funding goes directly from the federal government to local grantees, many states see the value of Head Start and choose to contribute state funds. In 2023, states invested over $330 million into Head Start to expand access and improve quality. Individual Head Start programs can also combine federal, state, local, and even private funding to maximize the impact of available funds. As a key component of the early childhood landscape, any significant reduction or changes to Head Start funding would threaten to upend many state systems, leaving families who depend on care with limited or no viable options.

Federal Funds Offer Stability in Challenging Economic Times

Federal funds play a crucial role in sustaining early learning and care funding during challenging economic times. When the economy is weak, states face a two-fold blow of decreasing revenues combined with greater demand for public services. Most states are required to balance their budgets, placing fiscal pressure on states that leads to spending cuts. Since states do not have the same constitutional obligations to provide early learning and care as they do for K-12 schooling, state early childhood funding is vulnerable to cuts when they face economic headwinds. At times like these, only the federal government has the fiscal capacity to provide additional funds needed to sustain early learning and care services and meet increased child and family needs.

Following the 2008 financial crisis, for instance, increased federal funding for CCDBG and Head Start played a vital role in sustaining access to care and early learning for many families in the face of state budget cuts. Even with this support, access fell during the recession and did not fully rebound in some states. According to the National Institute for Early Education Research (NIEER), 64% of states (including DC) that had public preschool programs in 2007-2008 spent less per child on state-funded preschool in the 2018-2019 school year than they did before the Great Recession, adjusting for inflation. Even a decade later, states struggled to raise per-child spending on public preschool programs back up to pre-recession levels, and subsequently program quality and access suffered. Without federal intervention, the damage would have been far worse.

Federal mandatory dollars also play an important role in stabilizing early learning systems. While most federal early learning and care programs are subject to appropriations, funds from the **Child Care Entitlement to States (CCES)** are mandatory, meaning funding is set by statute and not subject to the annual appropriations process. Funds from CCES remained stable at $2.917 billion from FY2002 to FY2020. In March 2021, the American Rescue Plan Act (ARPA) amended Section 418 to provide permanent annual appropriations of $3.55 billion for FY2021 and beyond. Mandatory dollars allow states to make long-term investments and are particularly helpful when states have ongoing costs.

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Federal funds were particularly impactful as the child care sector navigated the COVID-19 pandemic and continues to contend with the rising costs of care. Federal relief funding served as a critical lifeline that the nation's early childhood programs and families desperately needed. In addition, it demonstrated what states can do when equipped with additional resources. However, these funds were temporary – significant and permanent federal investments are needed to truly stabilize the sector for providers and families.

Federal Funds Advance Research & Development of Innovative Solutions

Federal funds have long supported innovation in the early learning and care sector. Availability and flexibility in federal funding allow state and local governments to pursue innovations in early learning service delivery and coordination to meet the needs of their local communities. Federal agencies also fund research on best practices that support quality in federally-funded programs and benefit the broader field.

Educare schools are an example of high-quality, comprehensive early learning programs benefiting from federal funding. Educare schools support children experiencing poverty from infancy until they enter kindergarten, connecting with community-based programs to help children and families access additional resources they need to thrive. To achieve Educare's model, the schools blend federal funding from Head Start and CCDBG with other public and private funding streams—including state pre-K and school district dollars, university partnerships, and philanthropic investments. Educare also conducts research that benefits the children and families it serves, the schools, and the research community at large. Each Educare school evaluates classroom quality indicators as well as child and family outcomes, which support continuous program improvement and provide families with information to help them support their children's learning.

This longitudinal research contributes to a national body of evidence on beneficial and cost-effective strategies to improve programs and, in turn, improve child and family outcomes. Even with this expansive funding structure, the basis of Educare's instructional approach and quality standards is the federal Head Start model. Thanks largely to strong and stable federal funding, Educare serves as a model for early learning programs around the country.

The **Preschool Development Grant Birth through Five (PDG B-5)** program is a $315 million competitive grant program that empowers state governments to better align federal, state, and local child care and early learning investments to create more efficient and effective systems. States use this unique funding stream to develop innovative ways to strengthen the full range of programs that support children from birth through age five and their families. States have significant flexibility in determining how to use PDG B-5 dollars, with projects that include aligning data systems, shifting governance structures, building the capacity of early learning systems, and piloting programs to meet the needs of specific populations, such as infants/toddlers. This program has been hugely popular among states, with almost all opting to participate and apply for multiple rounds of funding. PDG B-5 gives states the added capacity to pursue innovative strategies and represents an opportunity for the federal government to leverage the central role of states in leading early learning and care coordination and quality efforts.

The Federal Government Offers Opportunities Through the Tax Code

The federal tax code can provide relief for families with young children. While most federal early childhood spending is targeted to programs and services for low-income families, the **Child and Dependent Care Tax Credit (CDCTC)** is specifically designed to help working families with the cost of child care expenses. The CDCTC allows taxpayers to decrease expenses for child care and keep more of what they earn. Families can claim a percentage of child care expenses depending on their adjusted gross income. The credit reduces their taxable income by a maximum of $1,050 for one dependent and $2,100 for two or more dependents. On average, the credit amounts to approximately $600. For tax year 2021, the CDCTC was temporarily expanded and taxpayers received an average credit of $2,099. Permanently **strengthening the CDCTC** by expanding its value and making it fully refundable would ensure it reaches the families who need it.

Another key opportunity available through the tax code is the **Employer-Provided Child Care Credit** under Internal Revenue Code Section 45F, often referred to as "45F." 45F is a federal tax program meant to encourage businesses to invest in child care for their employees. Under 45F, employers are eligible for a nonrefundable tax credit of up to 25% of qualified child care expenditures and 10% of qualified child care resource and referral expenditures. The credit is capped at $150,000 per year. Offering child care assistance can be an effective recruitment and retention tool for employers, and doing so provides a convenient and much-needed service for employees. However, data indicates that in its current form, the 45F credit is rarely claimed, signifying that changes to the policy may be worth considering to better incentivize employers to support child care access.

Finally, an exclusion for employer-provided child and dependent care assistance, known as the **Dependent Care Assistance Program (DCAP)**, is an employer-sponsored program that helps families pay for child care by providing reimbursements for up to $2,500 annually ($5,000 for married couples) to employees who pay for dependent care, usually through a flexible spending account (FSA). Employees can deduct dependent care expenses from their paycheck on a pre-tax basis. However, DCAP is disproportionately accessible to higher-compensated employees at larger companies. Low-wage employees and service industry workers have significantly lower access to DCAP and current limits have failed to keep up with the rising costs of child care. Reforms to the program could incentivize more businesses to establish DCAP benefits.

A Strong Foundation of Federal Funding is Essential

Federal support is foundational and crucial, now more than ever. These investments support the availability of quality, affordable, and accessible child care for working families in every state. Recent years have brought previously unseen challenges for families, businesses, and local, state, and federal governments, uncovering the fragility of our early learning and care systems. Early childhood programs need ongoing support to weather current economic headwinds and meet the needs of children, parents, providers, and employers. Because federal early learning and care funding provides the foundation for other investments, it is an essential piece of the early learning and care landscape nationwide.

For More Information

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About First Five Years Fund

The first five years last forever. At First Five Years Fund, we work to protect, prioritize, and build bipartisan support for quality child care and early learning programs at the federal level. Reliable, affordable, and high-quality early learning and child care can be transformative, not only enhancing a child's prospects for a brighter future but also bolstering working parents and fostering economic stability nationwide.
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