

# Child Care Funding in Governor Shapiro's FY 2026–27 Proposed Budget

## *What changes, what is essentially flat, and what is cut*

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Governor Shapiro's FY 2026–27 proposed budget largely preserves Pennsylvania's existing child care funding framework while making targeted investments in workforce recruitment and retention. The proposal includes modest increases for Child Care Services and Child Care Assistance, but these changes appear more focused on maintaining current operations than significantly expanding access or lowering costs for families.

For many Pennsylvania families, child care remains one of the largest household expenses, often rivaling the cost of housing or tuition. When families cannot access affordable, reliable care, parents may be forced to reduce work hours, leave the workforce entirely, or rely on unstable care arrangements. At the same time, providers across Pennsylvania continue to face staffing shortages, rising operating costs, and difficulty retaining workers in a sector defined by persistently low wages.

Overall, the proposed budget reflects a limited child care strategy: stabilize parts of the workforce, sustain existing subsidy infrastructure, and continue using tax-code supports that provide relief to some families and employers without addressing the deeper affordability and provider-cost challenges facing Pennsylvania's child care system.

### **Key Takeaways**

- The proposed budget increases total General Fund support for the Child Development Program by \$8.528 million, from \$693.298 million in FY 2025–26 to \$701.826 million in FY 2026–27, an increase of about 1.2%.
- Core child care access lines grow only modestly: Child Care Services increases by \$2.206 million, or 0.7%, and Child Care Assistance increases by \$1.621 million, or 1.3%. These increases appear closer to maintenance-level adjustments than a major expansion of eligibility, provider reimbursement, or family access.
- The budget's own projections estimate 97,000 children served in subsidized child care during the last month of FY 2026–27, the same level estimated for FY 2025–26. This suggests the proposal is largely designed to maintain the existing system rather than significantly expand access for additional families.
- The largest child care-specific policy shift is the \$10 million increase for Child Care Recruitment and Retention, which rises from \$25 million to \$35 million, a 40% increase.
- Some related early childhood and family-support programs are reduced or held flat. Community-Based Family Centers remain flat at \$34.558 million,

Early Intervention decreases by \$5.213 million, and Nurse-Family Partnership decreases by \$86,000.

- The budget also continues to use the tax code as a child care policy tool, including the Child and Dependent Care Enhancement Tax Credit and the Employer Child Care Contribution Tax Credit. While these supports may provide relief to some families and employers, they do not replace the need for sustained public investment in the child care system itself.

### **What Does the Proposal Suggest for Child Care Access and Affordability?**

The FY 2026–27 proposal maintains and slightly increases the two core General Fund lines that support child care access for families: Child Care Services and Child Care Assistance. Together, these appropriations support Child Care Works and related child care subsidy services and administration for low-income families who need child care while parents are working, participating in training, or transitioning from TANF.

Child Care Services rises from \$298.080 million to \$300.286 million, a \$2.206 million increase tied in the budget’s program recommendations to an initiative to increase the minimum wage to \$15 per hour. Child Care Assistance rises from \$123.255 million to \$124.876 million, a \$1.621 million increase that reflects a mix of current-program funding, changes in state-federal cost sharing for SNAP administration, and a smaller minimum-wage-related initiative.

While these increases move funding in a positive direction, they do not appear large enough to significantly reduce child care costs for families, expand the number of subsidized slots available, or substantially increase access for families struggling to find affordable care. Given rising operating costs, inflationary pressures, and ongoing workforce shortages across the sector, these increases may function more as stabilization funding than true expansion investments.

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### **What is Proposed for the Child Care Workforce?**

The most significant child care workforce change in the proposal is the increase in Child Care Recruitment and Retention funding. The budget raises this line from \$25 million in FY 2025–26 to \$35 million in FY 2026–27, a \$10 million increase. This represents a 40% increase and is the clearest targeted investment in child care workforce stabilization within the proposal.

This investment is important because Pennsylvania’s child care crisis is also a workforce crisis. Providers across the Commonwealth continue to struggle with staffing shortages driven by low wages, burnout, and competition from higher-paying industries. These staffing shortages can force providers to reduce enrollment,

close classrooms, or limit operating hours, making it harder for families to find reliable care.

Recruitment and retention dollars can help stabilize parts of the sector, but a one-line increase alone is unlikely to solve the underlying compensation gap facing child care workers. Without sustained investment in provider reimbursement rates, wages, and benefits, many providers may continue struggling to recruit and retain qualified staff.

### What Stayed the Same and What Was Reduced?

The proposal keeps Community-Based Family Centers flat at \$34.558 million. These centers support voluntary, evidence-based home visiting and community-based family support programs that help parents strengthen parenting skills, support healthier pregnancies, improve child health, and promote children’s learning, development, and overall well-being. While this avoids cuts, it also means the budget does not propose additional state General Fund growth for this line, even as family-support needs and operating costs continue to rise.

The proposal reduces Early Intervention by \$5.213 million, from \$198.430 million to \$193.217 million, and slightly reduces Nurse-Family Partnership by \$86,000, from \$13.975 million to \$13.889 million. Early Intervention helps infants and toddlers with developmental delays or disabilities receive services in homes, child care programs, and community settings, while Nurse-Family Partnership provides evidence-based home visiting support for parents and young children. While these are not direct child care subsidy lines, they are part of the broader early childhood and family-support infrastructure that many families rely on.

Flat funding and reductions in these programs can still have real consequences for families, especially as many communities continue to face growing economic pressures and barriers to accessing support services for young children.

**Table 1: FY 2025–26 vs proposed FY 2026–27 (selected child care and early childhood appropriations)**

*Amounts are in thousands (as shown in the budget book).*

Line item	2025–26	2026–27 proposed	Dollar change	Percent change
Community-Based Family Centers	34,558	34,558	0	0%
Child Care Services	298,080	300,286	2,206	0.7%
Child Care Assistance	123,255	124,876	1,621	1.3%
Child Care Recruitment and Retention	25,000	35,000	10,000	40%
Nurse-Family Partnership	13,975	13,889	-86	-0.6%
Early Intervention	198,430	193,217	-5,213	-2.6%
<b>Total General Fund, Child Development Program</b>	<b>693,298</b>	<b>701,826</b>	<b>8,528</b>	<b>1.2%</b>

Source: Governor’s Executive Budget 2026–2027, Human Services, Child Development Program (appropriations table).

Taken together, these appropriations suggest a budget strategy focused more on maintaining existing systems than making transformative investments in affordability or access. While the recruitment and retention increase stands out as a meaningful workforce investment, most other child care-related lines remain relatively flat or grow only modestly.

### Child Care Policies in the Tax Code

In addition to appropriations, the budget relies on tax credits to support child care affordability and employer participation.

The Child and Dependent Care Enhancement Tax Credit supports families by increasing the state match to 100% of the federal credit and raising the maximum benefit from \$630 to \$2,100 per family. The Employer Child Care Contribution Tax Credit supports employers by offering a credit of up to 30% of eligible contributions, capped at \$500 per employee.

These tax-code supports may help reduce costs for some families and encourage some employer participation in child care support. However, tax credits function differently from direct investments in the child care system itself.

Tax credits do not necessarily increase provider reimbursement rates, expand the number of subsidized child care slots available, or directly raise wages for early educators. For that reason, tax credits should be understood as partial affordability tools, not a substitute for sustained public investment in the child care system.

### Table 2: Child care-related tax credits (tax expenditures)

*These are tax-code supports (not appropriations). Amounts are in millions unless otherwise noted.*

Tax credit	Who it supports	Benefit design	Estimated tax expenditure (in millions)	Estimated number of claimants
Child and Dependent Care Enhancement Tax Credit	Families	State match increased from 30% to 100% of the federal credit; maximum benefit increased from \$630 to \$2,100 per family	\$134.76	219,500 individuals
Employer Child Care Contribution Tax Credit	Employers	Credit up to 30% of eligible contributions; capped at \$500 per employee	\$8.1	11,800 employers

*Source: Governor’s Executive Budget 2026–2027, Tax Expenditures (child care-related credits).*

### What this Proposed Budget Does Not Show

The proposed budget shows how much the Commonwealth plans to spend on selected child care lines, but it does not fully answer whether those investments are enough to meet the scale of family need or provider costs.

The proposal does not clearly answer how many eligible children remain unserved, how far reimbursement rates are from the true cost of care, how much

additional funding would be needed to raise child care wages to a competitive level, or how the Commonwealth plans to move from short-term stabilization to long-term affordability.

Those gaps matter because child care affordability is not only a family-budget issue. It is also a workforce, employer, and economic-development issue. Without a larger strategy for sustainable funding, Pennsylvania risks maintaining a system that still leaves too many families unable to find affordable care, too many providers unable to cover the cost of operating high-quality programs, and workers continuing to leave the profession because wages remain too low.

### **Current Legislative Movement**

Child care legislation remains active in the General Assembly, but the proposals moving or introduced so far point to the same broader tension: lawmakers are debating targeted supports, workforce stabilization, and tax-code relief, while the sector still lacks a comprehensive long-term funding solution.

- Senate Bill 506, sponsored by Sen. Lindsey Williams (D), would amend the Human Services Code to create a Child Care Staff Recruitment and Retention Program. As of the latest official legislative history, the bill was referred to the Senate Health and Human Services Committee on June 18, 2025.
- House Bill 1534, sponsored by Rep. Liz Hanbidge (D), addresses the Pennsylvania Child and Dependent Care Enhancement Tax Credit Program, continuing legislative attention to child care affordability through the tax code. The bill passed the House on June 25, 2025, by a 128-75 vote and was referred to the Senate Finance Committee.

### **Why This Matters**

Child care is essential economic infrastructure. When it works, parents can work, children can learn, and employers can rely on a more stable workforce. When it fails, families face impossible choices, providers struggle to stay open, and the broader economy absorbs the cost.

Governor Shapiro's FY 2026–27 proposal makes some positive investments, especially in recruitment and retention, but it also illustrates the limits of trying to maintain essential services without a stronger revenue foundation. A budget that relies on modest increases and tax-code supports may help at the margins, but it does not fully meet the scale of Pennsylvania's child care affordability and workforce crisis.

That is why PPC's For Our Common Wealth campaign calls for a more sustainable and equitable revenue system that can support the public investments Pennsylvania families, workers, and communities need. Sustainable, recurring revenue would give Pennsylvania more capacity to expand Child Care Works, raise reimbursement rates, stabilize providers, improve compensation for child care workers, and make child care more affordable for working families. Without that broader fiscal foundation, the Commonwealth will continue to face a gap between what families and providers need and what the state budget is able to deliver.