

As City Plans Child Care Improvements, Funding Tightens

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SUMMARY

THE BLOOMBERG ADMINISTRATION recently announced a plan to improve the quality and efficiency of the city's system of subsidized child care for more than 100,000 children. This system of subsidized child care has grown considerably over the past few years, funded largely with an infusion of state and federal dollars, and has increasingly relied on unlicensed, informal care. The proposal to improve the system comes at a time when the funding that enabled the city to expand its child care efforts is now starting to diminish.

This report looks at the changes in child care funding, spending, and enrollment since 1999 by the Human Resources Administration and the Administration for Children's Services. It updates a similar report [[Where Have All the New Child Care Dollars Gone?](#)] issued in December 2002. Among our key findings:

- Since 1999, child care enrollment has increased from nearly 89,000 to more than 107,000. All of the growth in child care enrollment has occurred at the Human Resources Administration, which serves public assistance recipients. The children of low-income working families now receive a smaller share of the city's subsidized child care slots.
- Combined child care spending by the two city agencies grew by 41 percent from \$517 million in 1999 to \$730 million in 2005, significantly outpacing the 21 percent growth in enrollment. This disparity resulted from significant increases in the cost per child, with collective bargaining increases and state mandated per child rate adjustments accounting for much of the increase.
- Since 2002 the Child Care Block Grant, comprised of federal and state funds, has accounted for over 60 percent of the city's annual child care budget. After rising for several years, the city's block grant allocation decreased significantly this year and future funding levels are uncertain.

The city's child care system faces additional risks from proposals in Congress to increase work requirements for welfare recipients, which could increase the need for child care services without necessarily providing adequate funding. Such a policy change could further increase the public assistance portion of the child care population.

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BACKGROUND

New York City provides child care subsidies for over 100,000 children—from infants to 12-year-olds—through the Administration for Children’s Services (ACS) and the Human Resources Administration (HRA). The combined ACS and HRA child care budget for 2006 is \$712 million.

Subsidies are available for three types of child care: informal care provided in the home of an unlicensed provider, family (generally three to six children) or group family day care (generally seven to 12 children) provided in the home of a licensed caregiver, and center-based day care in a licensed facility. Subsidies are provided through direct payments to providers holding contracts with the city or through vouchers. Most center-based and family care is provided through contracts, although some is paid for with vouchers. All informal care is provided through vouchers. Rates vary by type of child care, with center-based the most expensive and informal the least expensive, and by the age of the child, with younger children costing more than older children.

There are significant differences between the child care systems of the two city child care agencies. HRA provides child care services to children whose parents receive public assistance and participate in work-related activities. While HRA provides all three types of child care, most of its child care is informal. In contrast, ACS primarily serves children from working families who meet certain income eligibility criteria. While ACS also provides all three types of child care, most of its child care is center-based. Although traditionally ACS has functioned as the city’s main child care agency with a significantly larger budget and enrollment than HRA, in recent years most of the growth in child care spending and enrollment has been at HRA.

Last October the Bloomberg Administration introduced a plan to reorganize and upgrade the city’s system of providing subsidized child care. Some of the features of the plan include the integration of the two child care systems at ACS and HRA and for better coordinating child care with related programs such as Head Start, Universal Pre-K, and the new Out of School Time program run by the Department of Youth and Community Development (DYCD), which has begun serving older children after school. After a number of years of growth in child care spending and enrollment, the proposed changes would come as funding from Washington and Albany has started to decline.

ENROLLMENT AND SPENDING TRENDS

Enrollment. The number of children receiving subsidized child care through ACS has remained stable over the last several years, with an average of 59,249 children served in 1999 and 59,090 in 2005. While center-based care remains the predominant form of child care for ACS clients, there has been some shift towards informal care. In 1999, 82 percent of the ACS child care population was in center-based care and only 2 percent was in informal care. (The rest were in family care.) By 2005, the proportion receiving center-based care had fallen to 71 percent, while 9 percent received informal care.

In contrast to ACS, the average number of children receiving subsidized child care through HRA has risen sharply from 29,653 in 1999 to 48,224 in 2005, an increase of 63 percent. Most of this increase has occurred over the last three years.

The increase in child care enrollment at HRA is not a result of any increases in the public assistance caseload or in the number of recipients engaged in work-related activities. It is partly due to a rise in the use of child care by families transitioning from welfare to work. The number of children receiving transitional child care at HRA has increased from 1,847 in 1999 to about 6,700 currently. The rising child care enrollment also appears to result from improvements HRA has made in the process of providing clients with information about their child care options.

While informal care remains the predominant form of child care for HRA clients, there has been some shift towards center-based care. In 1999, 87 percent of the HRA child care population was in informal care and only 7 percent was in center-based care. By 2005, the proportion receiving informal care had fallen to 73 percent, while 16 percent received center-based care.

The combined ACS and HRA enrollment has grown from an annual average of 88,902 in 1999 to 107,314 in 2005, an increase of 21 percent. Since all of this growth has occurred at HRA, the children of public assistance recipients make up an increasing proportion of all children receiving subsidized child care. Likewise, because HRA depends more heavily than ACS on informal care, rising enrollment at HRA has led to an increasing share of child care in unlicensed home settings. In 1999, 57 percent of the combined child care population was in center-based care and 30 percent was in informal care. By 2005, the proportion receiving center-

New York City Child Care Enrollment and Spending

	City Fiscal Year						
	1999	2000	2001	2002	2003	2004	2005
ACS							
Average Enrollment							
Center-based	48,613	46,390	46,015	47,176	45,733	44,019	41,853
Family and Group Family	9,230	8,823	9,499	10,623	10,364	10,946	11,650
Informal	1,406	1,095	1,798	2,952	3,654	4,727	5,587
Total Enrollment	59,249	56,308	57,312	60,751	59,751	59,692	59,090
Spending (in thousands)	\$428,273	\$432,852	\$461,515	\$471,832	\$471,470	\$463,397	\$488,481
Spending Per Child	\$7,228	\$7,687	\$8,053	\$7,767	\$7,891	\$7,763	\$8,267
HRA							
Average Enrollment							
Center-based	2,082	2,249	1,803	3,556	5,671	6,600	7,822
Family and Group Family	1,867	2,161	2,318	2,845	4,164	4,683	5,367
Informal	25,704	33,054	33,448	29,162	33,702	32,810	35,035
Total Enrollment	29,653	37,464	37,569	35,563	43,537	44,093	48,224
Spending (in thousands)	\$88,337	\$120,746	\$145,512	\$151,989	\$173,397	\$214,604	\$241,109
Spending Per Child	\$2,979	\$3,223	\$3,873	\$4,274	\$3,983	\$4,867	\$5,000
ACS and HRA							
Average Enrollment							
Center-based	50,695	48,639	47,818	50,732	51,404	50,619	49,675
Family and Group Family	11,097	10,984	11,817	13,468	14,528	15,629	17,017
Informal	27,110	34,149	35,246	32,114	37,356	37,537	40,622
Total Enrollment	88,902	93,772	94,881	96,314	103,288	103,785	107,314
Spending (in thousands)	\$516,610	\$553,598	\$607,027	\$623,821	\$644,867	\$678,001	\$729,590
Spending Per Child	\$5,811	\$5,904	\$6,398	\$6,477	\$6,243	\$6,533	\$6,799

SOURCES: IBO; Administration for Children's Services; Human Resources Administration.

NOTES: Spending is not adjusted for inflation. The figures do not include after-school care provided by the Department of Youth and Community Development.

based care had fallen to 46 percent, while 38 percent received informal care.

The ACS child care system will likely experience some enrollment reduction as a result of the gradual implementation of the city's new Out of School Time program for school-age children in 2006 and 2007. The consolidation of after-school programs in the Department of Youth and Community Development will ultimately result in the closing of approximately 10,000 ACS-contracted, center-based child care slots. The actual short-term reduction in ACS enrollment, however, may be less than this, as some of the affected families may exercise their option to use child care vouchers to remain in the ACS system, since many of the new after-school slots provided by the youth department will be at different locations than the ACS slots they are replacing.

Spending and Cost Per Child. Child care spending by ACS rose from \$428 million in 1999 to \$488 million in 2005, a

relatively modest increase of 14 percent over six years. Because enrollment at ACS was stable over this time frame, the increase in overall spending resulted overwhelmingly from changes in the average cost per child, which increased by 14 percent from \$7,228 in 1999 to \$8,267 in 2005. The average cost per child can fluctuate from year to year depending on the exact mix of types of child care provided and the ages of the children enrolled.

Longer term trends are driven primarily by collective bargaining increases for center-based child care workers and state-mandated market rate increases that affect the cost of child care vouchers, although increases in lease and insurance costs also play a role. Since the vast majority of ACS-funded child care slots are provided through center-based contracts, the primary driving force behind increases in the cost per child has been collective bargaining increases.¹ A collective bargaining increase in 2000 resulted in increases in ACS's cost per child in 2000 and 2001. After that the cost per child decreased slightly, probably as a result

of the trend toward the use of cheaper, informal care. The next collective bargaining increase in 2005 resulted in another significant increase in the average cost per child at ACS.

Child care spending at HRA rose dramatically from \$88 million in 1999 to \$241 million in 2005, an increase of 174 percent. Unlike with ACS, a large portion of the spending increase resulted from an upturn in enrollment, which rose by 63 percent over this period. Much of the increase in child care spending by HRA, however, was also a consequence of a significant upturn in the average cost per child, which increased by 68 percent, from \$2,979 in 1999 to \$5,000 in 2005. Since HRA's child care program operates on a voucher system, increases in cost per child are driven primarily by periodic market-rate increases. Such increases were granted by state officials in October of 1999, 2001, and 2003 and added significantly to HRA child care costs. Another important factor contributing to the rising cost per child in recent years has been the increasing use of center-based care by HRA clients.

Combined child care spending by ACS and HRA grew 41 percent from \$517 million in 1999 to \$730 million in 2005, significantly outpacing the 21 percent growth in combined enrollment. The overall ACS and HRA child care budget for 2006 is \$712 million; the decline reflects in part the movement of after-school funds from ACS to the Department of Youth and Community Development for its new after-school program.

FUNDING TRENDS

The overall trends in the child care budget result from a complex series of changes in the specific funding streams

that finance the city's child care services.² While some funding streams have increased substantially, others have decreased or disappeared altogether. By far the two most important sources of child care funds are city funds and the state and federal Child Care Block Grant (CCBG). As other sources have dried up, these two funding streams have accounted for an increasing proportion of all child care funds, comprising 78 percent of the child care budget in 1999 and 92 percent in 2006. Specific funding trends are as follows.

City Funds. In 1999, the child care budget for ACS and HRA included \$226 million in city funds. This city funding increased to \$260 million in 2000 and \$289 million in 2001. During 2002, in response to increasing fiscal problems associated with an economic downturn and the World Trade Center disaster, city funds for child care were cut by \$101 million for 2002 and by somewhat less for later fiscal years. As a result of these and smaller reductions in the city's subsequent Financial Plans, the amount of city funds in the child care budget dropped to \$197 million in 2002, \$190 million in 2003, and \$185 million in 2004. In 2005 city child care funds increased to \$223 million, partly as a result of the addition of funds to cover the wage increase for workers at the centers that contract with ACS. The slight decrease in city funds from 2005 to 2006 reflects the shift of after-school funds from ACS to the youth department's new after-school program.

Child Care Block Grant. The block grant was established as part of the 1997 state legislation conforming state programs with the 1996 federal welfare reform act. The CCBG combines the state's allocation from the federal Child Care Development Fund, state child care funds, and any surplus federal Temporary Assistance to Needy Families (TANF)

funds that the state decides to dedicate to child care. The statewide CCBG and the city's CCBG allocation have increased significantly over the years. In 1999, the city budgeted \$178 million in CCBG funds. By 2004 the amount of CCBG in the city budget had increased to \$462 million. In the last two years restrictions on the amount of TANF surplus funds available for child care have brought an end to the growth in the city's CCBG allocation. In 2005 the city budgeted \$457 million in CCBG, and in 2006 budgeted CCBG

New York City Child Care Budget by Funding Source							
Administration for Children's Services and Human Resources Administration							
<i>Dollars in thousands</i>							
	Total	City	%	CCBG	%	Other	%
1999	\$520,112	\$226,036	43.5%	\$177,681	34.2%	\$116,395	22.4%
2000	\$600,506	\$260,444	43.4%	\$249,544	41.6%	\$90,518	15.1%
2001	\$636,958	\$289,367	45.4%	\$259,723	40.8%	\$87,868	13.8%
2002	\$631,013	\$196,844	31.2%	\$396,118	62.8%	\$38,051	6.0%
2003	\$649,116	\$190,417	29.3%	\$410,370	63.2%	\$48,329	7.4%
2004	\$690,757	\$185,394	26.8%	\$462,161	66.9%	\$43,202	6.3%
2005	\$722,114	\$222,529	30.8%	\$457,137	63.3%	\$42,448	5.9%
2006	\$712,412	\$222,273	31.2%	\$436,369	61.3%	\$53,770	7.5%

SOURCES: IBO; Mayor's Office of Management and Budget.
 NOTES: The numbers represent late year modified child care budgets for each year through 2005. For 2006 they are from the November 2005 Financial Plan. The figures do not include after-school care provided by the Department of Youth and Community Development.

funds have decreased further to \$436 million.

While city funds and CDBG funds remain the major components of the city's child care budget, the relative importance of the Child Care Block Grant has increased dramatically over time. From 1999 through 2001 city funds represented about 44 percent of the child care budget. Since 2002, a year in which major reductions took place, city funds have accounted for about 30 percent of child care funds annually. In 1999 CDBG funds comprised 34 percent of the child care budget. By 2002 the CDBG portion of the budget had risen to 63 percent, and it has remained above 60 percent each year since then.

This growing dependence on the CDBG created few problems for the city during the years of rapid growth in the block grant allocation. In the last two years, however, the pool of CDBG funds available to the city to pay for child care subsidies has begun to contract. In the 2006 child care budget, city officials have been able to absorb a significant decrease in CDBG funds by using a one-time back payment of child welfare funds (see below) to make up for the shortfall. It is uncertain whether such remedies will be available in future years.

Other Funding Sources. While city and CDBG funds have consistently accounted for the bulk of the city's child care funding, over the years other, smaller funding streams have been utilized to help pay for child care. The most important of these have been Title XX, the Community Development Block Grant (CDBG), and child welfare.

In 1999, \$71 million or 14 percent of the child care budget was funded through the federal Social Services Block Grant, commonly known as Title XX. As a result of reduced federal allocations, by 2001 Title XX funds in the city's child care budget had fallen to \$59 million. Starting in 2002, the state required the city to shift the remaining Title XX funds out of child care and into adult protective services and domestic violence programs. Since then no Title XX funds have been used to pay for the city's child care services.

In recent years federal CDBG funds have come to play a greater role in funding the city's child care services. Because of legal limits on spending CDBG funds for social services, from 1999 through 2002 the city budgeted only about \$3 million in CDBG funds per year for child care services, with larger amounts of as much as \$30 million going to construction and renovation of child care

facilities. In the aftermath of the World Trade Center disaster, federal officials granted the city a temporary waiver from some of the constraints on the use of CDBG funds for social services. This waiver has been renewed through 2006. As a result the city has budgeted between \$22 million and \$37 million in CDBG funds for child care services each year since 2003, including \$23 million in 2006.

A small portion of the children in the city's child care program are also receiving child welfare services including foster care and protective services. This enables the city to fund child care services for these children using child welfare funding streams. From 1999 through 2005 the city budgeted between \$6 million and \$12 million per year in federal and state child welfare funds to provide child care for these children. As a result of a settlement with the state regarding back claims for state and federal child welfare funds, city officials increased the amount of child welfare funds in the child care budget to \$30 million in 2006.

FUTURE BUDGET RISKS

The city's new child care plan calls for making more efficient use of current resources to free up enough funds to allow for a modest program expansion. Implementation of the plan, however, could be effected by possible reductions in state and federal funds and increased mandates in a reauthorized federal welfare law.

State and Federal Issues. As mentioned above, the New York State Child Care Block Grant combines the state's allocation from the federal Child Care Development Fund, state child care funds, and any surplus TANF funds that the state decides to dedicate to child care. Total statewide subsidies allocated from the CDBG increased steadily from \$294 million in state fiscal year 1997-1998, the first year of the block grant's existence, to \$801 million in 2004-2005. In 2005-2006, statewide CDBG subsidies decreased for the first time to \$744 million.³

A major factor in the growth of the CDBG over the years has been the availability of increasing amounts of TANF surplus funds that could be used for child care. The TANF surplus grew as the federally funded portion of the public assistance caseload decreased and fewer funds were needed for grant costs. In the last few years these caseload decreases have moderated and state officials have used up TANF reserves to help close state budget gaps, resulting in smaller annual TANF surpluses. In addition, child care has faced increasing competition from alternative uses of the TANF

surplus, such as the expansion of the state's Earned Income Tax Credit. This has limited the amount of TANF funds that could be shifted into the CCBG.

Due to these budgetary pressures, in state fiscal year 2004-2005 the amount of TANF funds allocated for child care fell to \$375 million, a decrease of \$33 million from the previous year. State officials, however, were able to avoid a cut in the CCBG by making use of unspent funds from previous years. This remedy was not available in 2005-2006 and subsidies were reduced. New York City's CCBG subsidy allocation decreased from \$478 million in 2004-2005 to \$432 million in 2005-2006. Barring an increase in the state's child care or TANF block grant allocations from the federal government or further sharp declines in caseloads, it is clear that the city can no longer rely on a growing CCBG to cover its increasing child care costs.

Welfare Law Reauthorization. The size of the TANF and Child Care Development Fund block grants are among various issues to be decided as Congress reauthorizes the 1996 welfare law. The welfare law was set to expire in September 2002 but has been extended several times. Currently, a revised version of the TANF reauthorization bill has been attached to a larger spending reconciliation bill. This larger bill, which includes reauthorization of the welfare law, has been approved by the Senate and awaits final approval by the House of Representatives. The new welfare

bill would significantly increase work requirements for TANF recipients while freezing the TANF block grant at its 1996 level. Child care funding would be increased by a modest \$1 billion nationwide over five years, far less than the new child care costs associated with fulfilling the new work requirements, as estimated by the Congressional Budget Office. Thus, city officials could be required to further increase the number of child care slots for the children of public assistance recipients without adequate new funds to pay for them.

Written by Paul Lopatto

END NOTES

¹ At ACS the vast majority of center-based and family and group family care is provided through contracts with providers, while the remainder is provided through vouchers. All informal care at ACS is provided through vouchers. In contrast, at HRA all types of child care are provided through vouchers.

² In the balance of this report, we use the latest budgeted amounts for each fiscal year rather than actual spending. This is necessary because we want to examine child care funding sources and funding detail is not available in the Comptroller's Annual Financial Report on actual spending. Current modified budget figures, even from near the end of the fiscal year, will usually not match the actual spending amounts, which reflect the final adjustments and reconciliation of agency spending.

³ In the state fiscal year 2005-2006 budget, state officials combined \$600 million of the TANF surplus into a Flexible Fund for Family Services (FFFS). The FFFS was then allocated to local governments, which have the authority to decide how to spend it. Some local officials including those in New York City have decided to use part of their FFFS allocation to supplement their CCBG allocation. These transfers from the FFFS to child care amount to \$9.9 million statewide, including \$5.5 million for New York City. All references in this brief to 2005-2006 CCBG subsidies include these transfers from the FFFS.

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