

## City's Reliance on State and Federal Funds for Child Care Grows

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### **SUMMARY**

New York City provides subsidized child care for approximately 96,000 children. The city's child care budget has grown 20 percent over the past five years, rising from \$520 million in fiscal year 1999 to \$622 million in the current fiscal year.

The child care program is funded through a mix of city, state, and federal programs; a mix that has shifted substantially over time. The overall growth in the child care budget has resulted from increased federal funding, primarily by the state's allocation of surplus welfare funds to child care grants. The use of city resources in each of the last two years is below the 1999 levels.

As the mix of funds has changed the city has become increasingly dependent on state and federal support. For example:

- The Child Care Block Grant, comprised of federal and state funds, has grown from 34 percent of the city's child care budget to 64 percent, and now totals \$415 million.
- Federal Temporary Assistance for Needy Families surplus funds once made up less than a quarter of the block grant, but now comprise more than half.
- Federal Title XX funds are no longer used for child care but the city has made increasing use of federal Community Development Block Grant funds.
- The city's allocation of its own funds for child care has declined both in dollar terms and as a share of overall child care spending. City dollars have fallen from \$226 million in 1999 to \$193 million in 2003, and now comprise 31 percent of overall child care funds, down from 44 percent in 1999.

With city funding being cut back, state welfare reserves largely spent, and federal grant levels and work requirements for welfare recipients likely to be altered in the new Congress, there is great uncertainty regarding future child care needs and funding. IBO has examined the current status of child care funding and spending in New York City and the potential future risks to the city's child care budget.

## INTRODUCTION

New York City provides child care subsidies for approximately 96,000 children through the Administration for Children's Services (ACS) and the Human Resources Administration (HRA). The combined child care budget for 2003 at ACS and HRA is \$622 million.

Children eligible for subsidized care fall into two groups. The first includes children whose parents receive public assistance and participate in work-related activities; they are primarily served by HRA. The second group includes children from working families who meet certain income eligibility criteria; they are served by the Agency for Child Development, a unit within ACS. While both agencies play important roles, ACS functions as the city's main child care agency with a 2003 child care budget of \$478 million funding subsidies for approximately 61,000 children, compared to \$143 million for HRA funding subsidies for approximately 35,000 children.

Subsidies are available for three types of child care: informal care provided in the home of an unlicensed provider, family or group family day care provided in the home of a licensed provider, and center-based day care in a licensed facility. Most ACS child care is center-based, while most HRA child care is informal. Subsidies are provided through direct payments to providers or through vouchers. Rates vary by type of child care and the age of the child.

began to rise sharply) to \$622 million in the current fiscal year, an increase of 20 percent. All of this growth occurred by 2001 when the budget reached \$637 million. The child care budget then decreased last year and this year. The reductions in the last two years are mainly due to cuts in city funding at ACS that have resulted from efforts to close city budget gaps by limiting an anticipated expansion in the city's child care capacity.

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. While some funding streams have increased substantially, others have decreased or disappeared altogether. The following is a brief survey of the main child care funding streams:

*Title XX.* Once a major source of child care funds, Title XX funds are no longer part of the city's child care budget. The Social Services Block Grant, commonly known as Title XX, is a federal block grant that states can use to fund a variety of services for low-income individuals and families. The 1996 federal welfare reform act reduced direct Title XX funding, but allowed the states to supplement their Title XX allocations with Temporary Assistance for Needy Families (TANF) funds. Each year state officials have used TANF surplus funds to increase Title XX funding. As a result, New York City receives two types of Title XX funds: direct Title XX and TANF-

funded Title XX.

The city has primarily used TANF-funded Title XX to fund child welfare programs. In contrast, a portion of the city's direct Title XX funds were used for child care until 2002.

In 1999, \$71 million, or 14 percent of the child care budget, was funded through direct Title XX. By 2001, this funding had fallen to \$59 million, or 9

percent of the child care budget. Starting in 2002, the state required the city to shift the remaining direct Title XX funds out of child care and into adult protective services and domestic violence programs. Since then no Title XX funds, either direct or TANF-funded, have been used to pay for the

### New York City Child Care Budget and Spending

(Dollars in thousands)

	City Fiscal Year			
	1999	2000	2001	2002
Late Year Modified Budget	\$520,112	\$600,507	\$636,958	\$631,013
End of Year Budget Adjustments	\$7,274	(\$27,055)	(\$30,405)	(\$12,021)
End of Year Budget	\$527,386	\$573,452	\$606,553	\$618,992
<b>Spending</b>	<b>\$516,602</b>	<b>\$553,603</b>	<b>\$606,431</b>	<b>\$621,911</b>
Surplus (Deficit)	\$10,784	\$19,849	\$122	(\$2,919)
Average # of Children Enrolled	88,902	93,772	94,881	96,314
<b>Annual Spending Per Child (Actual Dollars)</b>	<b>\$5,811</b>	<b>\$5,904</b>	<b>\$6,391</b>	<b>\$6,457</b>

SOURCES: IBO, New York City Financial Management System (FMS), New York City Office of Management and Budget, New York City Administration for Children's Services, New York City Human Resources Administration

NOTES: Late Year Modified Budget is as of the Adopted Budget for the following year. Actual Spending is defined as total obligations as reported in FMS. The 2002 Actual Spending is as of October 2002

## CHILD CARE FUNDING SOURCES

There have been significant changes in the city's child care budget over the last four years. Overall, the child care budget has grown from \$520 million in 1999 (before federal funding

## New York City Child Care Budget by Funding Source

(Administration for Children Services and Human Resource Administration)

(Dollars in thousands)

1999	Total	City	State	Federal	CD
ACS	\$442,487	\$206,630	\$40,534	\$162,685	\$32,638
HRA	\$77,625	\$19,406	\$19,406	\$38,813	\$0
<b>Total</b>	<b>\$520,112</b>	<b>\$226,036</b>	<b>\$59,940</b>	<b>\$201,498</b>	<b>\$32,638</b>
<b>2000</b>					
ACS	\$476,800	\$236,483	\$20,358	\$195,118	\$24,841
HRA	\$123,707	\$23,961	\$23,961	\$75,785	\$0
<b>Total</b>	<b>\$600,507</b>	<b>\$260,444</b>	<b>\$44,319</b>	<b>\$270,903</b>	<b>\$24,841</b>
<b>2001</b>					
ACS	\$495,034	\$253,886	\$11,179	\$206,854	\$23,114
HRA	\$141,924	\$35,481	\$28,515	\$77,928	\$0
<b>Total</b>	<b>\$636,958</b>	<b>\$289,367</b>	<b>\$39,694</b>	<b>\$284,782</b>	<b>\$23,114</b>
<b>2002</b>					
ACS	\$487,591	\$161,363	\$2,516	\$302,512	\$21,201
HRA	\$143,422	\$35,481	\$12,015	\$95,926	\$0
<b>Total</b>	<b>\$631,013</b>	<b>\$196,844</b>	<b>\$14,531</b>	<b>\$398,438</b>	<b>\$21,201</b>
<b>2003</b>					
ACS	\$478,094	\$157,867	\$2,398	\$295,779	\$22,052
HRA	\$143,422	\$35,481	\$2,515	\$105,426	\$0
<b>Total</b>	<b>\$621,516</b>	<b>\$193,348</b>	<b>\$4,913</b>	<b>\$401,205</b>	<b>\$22,052</b>

SOURCES: IBO, New York City Office of Management and Budget

NOTE: The numbers represent late year modified child care budgets for each year.

city's child care services.

**Child welfare.** 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. As a result, the city is able to fund child care services for these children using child welfare funding streams. In 1999, the city budgeted \$12 million in federal and state child welfare funds for providing child care for these children. This funding dropped to \$6 million in 2000 and has remained steady since then.

**Community Development Block Grant (CDBG).** This federal block grant funds programs for low-income individuals and families, with an emphasis on the construction and renovation of housing and community facilities. Each year the city allocates a portion of its federal CDBG pool to child care programs. Because of legal limits on spending CDBG funds for social services, most of these funds have been allocated for the construction and renovation of child care facilities. (These funds appear as part of the Expense Budget rather than the Capital Budget.) From 1999 through 2002 the city budgeted only about \$3 million in CDBG funds per year for child care services, with larger amounts (as much as \$30 million in 1999) going to construction and renovation. 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. The city has taken advantage of this waiver by allocating \$22 million in CDBG for child care services in 2003, with \$19 million of this replacing city funds. The waiver is expected to be renewed through 2005.

**Child Care Block Grant (CCBG).** The CCBG was established as part of the 1997 state legislation conforming state programs with the 1996 federal welfare reform act. The CCBG combines federal child care funds, state child care funds, and TANF surplus funds that have been designated for child care. The statewide CCBG and the city's CCBG allocation have increased significantly over the last few years. In 1999, the city budgeted \$178 million in CCBG funds. By 2003, this had more than doubled to \$400 million.

### **Temporary Assistance for Needy Families.**

An increasing portion of the city's child care budget is funded with TANF surplus funds (dollars beyond the amount needed to cover the cash grant to welfare recipients). For the most part this funding is indirect, with the state utilizing TANF surplus funds to increase the size of the CCBG and then allocating it to localities. In 2002, however, the city also budgeted \$11 million in direct TANF funding for child care, which it swapped for city funds. There are no direct TANF child care funds budgeted for 2003.

**City funds.** Aside from all of these federal and state funding streams, the city spends a significant amount of its own funds on child care. A small portion of these funds provides the required match for the federal and state child welfare funds that the city receives for child care. A larger portion serves as the required maintenance of effort (MOE) spending under the rules that govern the allocation of the CCBG. Over the last few years the state has consistently set the city's annual maintenance of effort at \$53 million. But each year the city has been spending far more city dollars on child care than are required by any maintenance or matching requirements. These additional city funds have enabled the city to satisfy a greater share of the demand for subsidized child care among its low-income working population.

## State Child Care Block Grant Subsidies Grow

(Dollars in millions)

	State Fiscal Year					
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Statewide CCBG Subsidies	\$294	\$338	\$493	\$613	\$658	\$759
TANF Portion of Statewide CCBG Subsidies	\$67	\$77	\$230	\$322	\$342	\$397
New York City's CCBG Subsidy Allocation	\$167	\$178	\$263	\$368	\$396	\$415
TANF Portion of NYC CCBG Subsidy	\$38	\$40	\$123	\$195	\$210	\$211
Percent of NYC CCBG Allocation from TANF	22.7%	22.7%	46.7%	52.9%	53.1%	50.9%

SOURCES: IBO, New York State Division of the Budget, and the Office of Children and Family Services.

NOTES: For state fiscal year 1999-2000, \$230 million in TANF funds was added to the CCBG for that year, and an additional \$200 million in TANF funds was placed into a child care reserve fund to be spent in later years. This child care contingency fund was allocated in state fiscal years 2000-2001, 2001-2002, and 2002-2003. All the CCBG subsidy figures listed above exclude local maintenance of effort spending.

In 1999, the child care budget included \$226 million in city funds. This city funding increased to \$260 million in 2000 and \$289 million in 2001, before dropping to \$197 million in 2002 and \$193 million in 2003. The decreases last year and this year stem from efforts to close the city's large budget gaps. Over the past year the city reduced its child care funding by roughly \$100 million for 2002 and substituted \$11 million of this cut with direct TANF funds.

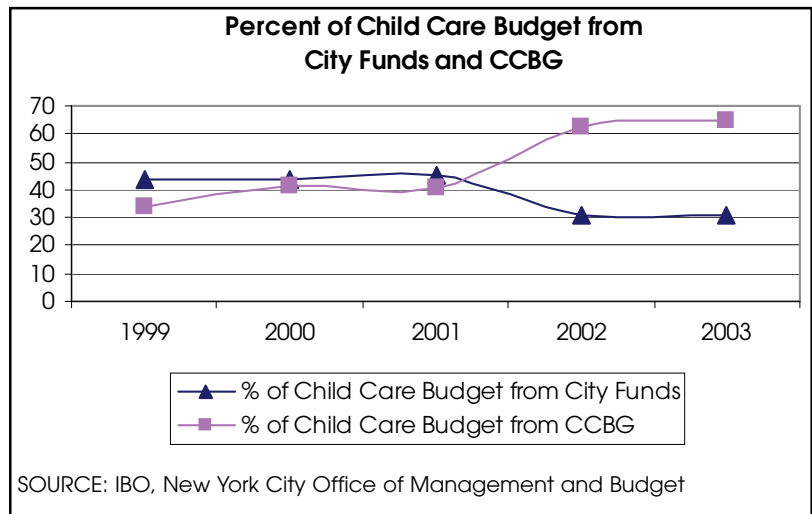
In the current fiscal year, the city has substituted another \$19 million in city funds with Community Development Block Grant funds and reduced the amount of city funds in the child care budget by an additional \$81 million. Prior to this reduction in "baseline" city funds, the city was expected to use the anticipated increase in state CCBG funding to expand its child care capacity by approximately 10,000 slots. Most of these new CCBG funds will now be needed to pay for current slots formerly funded with city dollars. As a result, expansion is now expected to be limited to about 3,000 slots.

### A CHANGING MIX OF FUNDS

Since 1999, the mix of funding streams in the city's child care budget has changed significantly. Title XX funds have disappeared altogether as a source of child care funds. CCBG subsidies from the federal and state governments have expanded, while city funds have been reduced. As a result, CCBG funds have replaced city funds as the main component of the child care budget. The city funds share of the overall child care budget has fallen from 44 percent in 1999 to 31 percent in 2003, while the CCBG share has grown from 34 percent to 64 percent. Consequently, the city has become increasingly dependent on the Child Care

Block Grant to meet its child care needs.

The CCBG was designed to simplify child care funding by combining into one pool of funds the state's allocation from the federal Child Care Development Fund (CCDF), state child care funds, and any surplus TANF funds that the state decides to dedicate to child care. Each year state officials determine the size of the CCBG as part of the budget process, and then allocate it to local districts based on such factors as historical child care spending, the relative cost of child care, and the percentage of low-income children.



The statewide pool of CCBG funds available for child care subsidies has increased dramatically over time, from \$294 million in state fiscal year 1997-1998 to \$759 million in 2002-2003, the current year. Thus, the pool of funds has expanded by two and a half times over a five-year period. While some of this expansion is due to increasing allocations of federal CCDF funds to New York State, the biggest factor has been the state's increasing use of TANF surplus funds for child care. In 1997-1998, the state enlarged the CCBG with

\$67 million in TANF surplus funds. Over the following years, as the Family Assistance caseload declined and the TANF surplus grew, the Governor and state Legislature significantly increased the flow of TANF funds into the CCBG. In 1999-2000, the state added \$230 million in TANF funds to that year's child care pool, and set aside another \$200 million in TANF money as a child care reserve fund to be allocated over the following three years. As a result, the amount of TANF surplus funds added to the CCBG reached \$322 million in 2000-2001, \$342 million in 2001-2002, and \$397 million in 2002-2003.

Over this time period, there has been a corresponding increase in the city's CCBG allocation from \$167 million in 1997-1998 to \$415 million in the current year. The growth in the city's allocation has been generally proportionate to the growth in the statewide CCBG subsidy pool. About 70 percent of this increase in the city's allocation is a result of TANF surplus funding added to the block grant. Looked at another way, while TANF surplus funds once represented less than one-quarter of the city's annual CCBG allocation, they now represent more than half.

### UNCERTAIN BUDGET FUTURE

Our analysis of funding trends in the city's child care budget makes it clear that the city has become increasingly dependent on the state Child Care Block Grant to pay for its child care programs. At the same time, the size of the block grant and the city's allocation have become more dependent on the state's TANF surplus. This dual dependency creates serious risks for the city. Specifically, both the amount of CCBG funds and the availability of TANF surplus dollars for child care will be greatly affected by policy decisions that will soon be made by state and federal officials.

*State issues.* The state's TANF surplus rose over the last few years as the Family Assistance caseload and grant costs decreased. This has allowed state officials to allocate increasing amounts of TANF dollars for subsidized child care and other welfare-to-work and anti-poverty programs. This upward

### New York City's Use of the State Child Care Block Grant

(Dollars in millions)

	City Fiscal Year		
	2000	2001	2002
New York City's CCBG Subsidy Allocation	\$263	\$368	\$396
<b>Growth in CCBG Allocation from 1999</b>	<b>\$85</b>	<b>\$190</b>	<b>\$218</b>
<b>Non-CCBG Child Care Budget Changes from 1999:</b>			
City	\$19	\$64	(\$29)
Direct Title XX	(\$12)	(\$12)	(\$71)
Other Federal and State	(\$33)	(\$53)	(\$27)
<b>Total Non-CCBG</b>	<b>(\$26)</b>	<b>(\$2)</b>	<b>(\$127)</b>
<b>Total New Funds Available for Child Care Compared to 1999</b>	<b>\$59</b>	<b>\$188</b>	<b>\$92</b>
<b>Spending Decisions:</b>			
Increase in Child Care Spending from 1999	\$37	\$90	\$105
Change in Surplus (Deficit) from 1999	\$9	(\$10)	(\$14)
CCBG Funds Claimed but Not Budgeted	\$14	\$108	\$0
<b>Total New Funds Accounted For</b>	<b>\$59</b>	<b>\$188</b>	<b>\$92</b>
<b>Unspent CCBG Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

SOURCES: IBO, New York City Financial Management System (FMS), New York City Office of Management and Budget, New York State Office of Children and Family Services.

NOTE: The CCBG allocations for city fiscal years 1999, 2000, 2001, and 2002 correspond to state fiscal years 1998-1999, 1999-2000, 2000-2001, and 2001-2002 respectively.

funding trend, however, could soon be threatened by the state's growing budget difficulties resulting from the weakening economy and the falloff in state revenues.

In the 2002-2003 Adopted Budget, state officials used nearly \$1 billion in TANF surplus funds for new fiscal relief. This included replacing state funds with TANF funds for programs like the Tuition Assistance Program and pre-kindergarten, which had not previously been funded with TANF dollars. In order to accomplish this, the state allocated unprogrammed TANF surplus funds from previous years and the entire \$662 million reserve fund that had been specifically set aside from prior years' TANF surpluses. These additional TANF surplus funds will not be available for the state's next fiscal year. This means that the state could be forced to divide what is likely to be a smaller TANF surplus among the many programs funded with TANF in 2002-2003. Barring an upturn in state revenues that would allow state funding to be restored for some of these programs, fewer TANF dollars would likely result in a smaller CCBG. Under these circumstances the city would likely find its CCBG allocation reduced.

Further complicating matters, the state has also used up the entire \$200 million TANF child care reserve fund that it

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established in 1999-2000. This reserve fund accounted for \$30 million of the city's CCBG allocation for the current year.

*Federal issues.* Changes to the federal 1996 welfare law being considered by Congress will also affect the availability of funds for child care. The welfare law was set to expire in September but has been extended through March 2003. In reauthorizing TANF the new Congress will make decisions on the size of the TANF and CCDF block grants, as well as future work requirements for recipients of TANF assistance. An increase in the percentage of TANF recipients required to be working—a feature of the Bush Administration's preferred reauthorization bill—would add to the demand for child care for TANF households. Unless new child care funding becomes available, the city would be faced with the prospect of shifting its resources from child care services targeted at the working poor who are not receiving TANF to services providing child care for TANF households.

Any change in the size of the TANF block grant to New York State would have an impact on the state's ability to fund its Child Care Block Grant. A significant increase in its federal TANF allocation could help the state preserve or expand the CCBG while continuing to use TANF surplus funds for programs that formerly received state funds. On the other hand, a reduction in the flow of TANF funds to the state would increase pressure to reduce the CCBG. As of this writing, it appears most likely that the TANF block grant will be extended at its current levels.

In contrast, Congress is expected to increase the CCDF block grant, the other major component of the state Child Care Block Grant. The various proposals for increasing the CCDF, however, differ widely in magnitude. Therefore, it is not clear if any increase will be large enough to cover the additional child care costs that could result from proposals to raise work quotas and expand the work week for adults receiving TANF assistance.

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