



THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE

110 WILLIAM STREET, 14TH FLOOR
NEW YORK, NEW YORK 10038
(212) 442-0632 • FAX (212) 442-0350 • EMAIL: iboenews@ibo.nyc.ny.us
<http://www.ibo.nyc.ny.us>

May 30, 2012

The Honorable Brad Lander
New York City Council
250 Broadway, Suite 1776
New York, NY 10007

Dear Council Member Lander:

Your office requested that the Independent Budget Office (IBO) determine how the EarlyLearn NYC program will impact the overall capacity of the city's subsidized child care system as administered by the Administration for Children's Services (ACS). In response to your request, IBO has estimated the probable impact of EarlyLearn NYC on the size of the child care system while also considering other funding issues that could further affect the availability of subsidized child care in New York City. Our analysis reveals an impending loss of just over 5,500 contracted slots upon implementation of EarlyLearn this September, along with losses to the voucher system if additional funding is not provided in the adopted budget. The loss of 5,500 slots takes into account the recent announcement by ACS that some existing funds would be allocated to create an additional 1,700 EarlyLearn slots. IBO estimates that retaining all of the child care slots, contracted and vouchers, would cost about \$93 million in fiscal year 2013.

The Concept of EarlyLearn NYC

In April 2010, ACS issued a concept paper describing its vision for a redesigned early childhood education system in New York City. The new initiative, called EarlyLearn NYC, encompasses all center- and home-based contracted care, as well as Head Start programs citywide. According to the Bloomberg Administration, the primary goal is to improve and standardize quality of care while expanding services to communities with the greatest need, as determined by community characteristics, including the concentration of children eligible for subsidies. As stated in the concept paper, EarlyLearn NYC will focus on: expanding infant and toddler placements; increasing support for children and families; ensuring each child's needs and each program's performance are properly assessed; making enrollment easier; and fostering program integration.

A Request for Proposals (RFP) was issued in May 2011 with contracts anticipated to start in September 2012. The RFP requires that applicants design programs that are developmentally focused, reflective of community need, programmatically and fiscally accountable, accessible to parents, and financially responsible. On May 4, 2012 the Bloomberg Administration announced 149 recommended awardees for EarlyLearn NYC contracts.

Background

ACS administers the largest municipal child care system in the country providing subsidies for over 96,000 children as of January 2012. Subsidies are offered for three types of child care: informal care, family or group family day care, and center-based day care. Subsidy payments are made directly to providers under contract with ACS or through vouchers. Informal care is provided solely through vouchers, while family and center-based day care are provided through a mixture of contracts and vouchers.

Services are provided to two groups based on eligibility: public assistance families participating in work or training programs and low-income working families. Public assistance families are guaranteed vouchers to pay for care, while eligible low-income working families receive vouchers or slots in ACS contracted child care facilities only when they are available.

Enrollment in the city's child care system has decreased steadily over the last several years from an all-time peak average of 116,355 in fiscal year 2006 to 98,646 in 2011. As of January 2012 enrollment had further decreased to 96,585, with 27,185 children in ACS contracted facilities and 69,400 children using child care vouchers. The contraction of the city's child care system is the result of agency cost-containment efforts in response to city funding cuts, a leveling off of federal funds and rising provider costs.

New York City Child Care Enrollment Has Declined

	2006	2011	<u>Change</u>	January 2012		
	<u>Average</u>	<u>Average</u>		<u>Total</u>	<u>Contracted</u>	<u>Voucher</u>
<u>Low Income</u>						
Center-based	40,077	29,290	(10,787)	28,748	18,962	9,786
Family and Group Family	12,355	13,372	1,017	11,523	8,223	3,300
Informal	6,721	6,095	(626)	4,466	0	4,466
Total Enrollment	59,153	48,757	(10,396)	44,737	27,185	17,552
<u>Public Assistance</u>						
Center-based	8,621	12,742	4,121	12,848	0	12,848
Family and Group Family	6,802	12,756	5,954	14,973	0	14,973
Informal	41,779	24,391	(17,388)	24,027	0	24,027
Total Enrollment	57,202	49,889	(7,313)	51,848	0	51,848
<u>Overall</u>						
Center-based	48,698	42,032	(6,666)	41,596	18,962	22,634
Family and Group Family	19,157	26,128	6,971	26,496	8,223	18,273
Informal	48,500	30,486	(18,014)	28,493	0	28,493
Total Enrollment	116,355	98,646	(17,709)	96,585	27,185	69,400

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

NOTE: All references are to city fiscal years. 2006 and 2011 figures are averages of monthly figures.

The numbers do not include Head Start enrollment.

In addition to providing subsidized child care options, ACS sponsors over 250 Head Start centers throughout the city as the recipient of a federal Head Start grant. These centers offer early

childhood care and education programs to eligible children ages 3 and 4 from very low-income working families. Head Start is funded by the federal government and requires a matching component from program providers contracted with ACS. It has been administered as a wholly separate program from the subsidized child care program, though a child may be eligible for both Head Start and child care funds. While the subsidized child care system has been steadily declining over the past five years, Head Start enrollment has remained relatively constant at around 18,000. Under EarlyLearn NYC, Head Start will be incorporated into the contracted child care system.

EarlyLearn NYC's Impact on the Size of the Child Care System

The implementation of EarlyLearn NYC will blend together two distinct early childhood programs at ACS: contracted child care and Head Start. Notably, it will have no impact on the number of child care vouchers offered by ACS, although some parts of the voucher system are at present unfunded for 2013. This means that about 60 percent of the combined number of child care and Head Start slots currently available through ACS will not be affected by EarlyLearn, including the entire public assistance child care system.

According to the original RFP, EarlyLearn NYC planned to provide 41,764 contracted slots for children ages 6 weeks to 4 years. This month ACS announced that it would fund an additional 1,700 slots, for a total EarlyLearn capacity of 43,464 slots. In comparison, the existing contracted child care and Head Start systems provide 48,971 slots in 2012. Therefore, compared with current service levels, just over 5,500 slots (about 11 percent) will be lost when EarlyLearn is implemented in September. At the time the RFP was released in May 2011, ACS had projected a loss of 8,200 slots under the new system, which would mean that after accounting for the 1,700 additional slots the equivalent net loss of contracted slots would be 6,500. The difference between 5,500 and 6,500 is simply a matter of timing; in May 2011 the child care system included an additional 1,000 contracted family care slots that were vacant and have since been eliminated.

EarlyLearn NYC Will Reduce Contracted Child Care Capacity				
	Budgeted Slots			
	Current	Early Learn RFP May 2011	EarlyLearn with Slots Added May 2012	Change from Current
<u>Center-based</u>				
<i>Child Care w/duals</i>	21,600	19,060	20,160	(1,440)
<i>Head Start w/duals</i>	19,311	19,311	19,311	0
<i>Take Out Duals</i>	(2,016)	(3,607)	(3,607)	(1,591)
Total CC & HS Centers Net of Duals	38,895	34,764	35,864	(3,031)
Family Child Care	10,076	7,000	7,600	(2,476)
Total Contracted	48,971	41,764	43,464	(5,507)

SOURCES: IBO; Mayor's Office of Management and Budget; Administration for Children's Services

"Duals" refers to slots counted as both child care and Head Start.

EarlyLearn NYC will provide child care in two distinct settings. Nearly 36,000 slots will be available in center-based settings which provide care for children ages 6 weeks through 4 years and may offer Head Start and/or Universal Pre-Kindergarten (UPK) programs on site. About 3,600 of the center-based slots are expected to be set aside for children who are dually eligible for child care and Head Start funds. The other 7,600 slots will be in family and group family child care home-based settings which must be attached to Family Child Care Networks under EarlyLearn. These networks offer administrative oversight and support to individual family child care providers. Because Family Child Care Networks are not permitted to provide care for 4 year olds or to offer Head Start and UPK programs, the networks are encouraged to link up with nearby centers which will more easily facilitate a family's transition between the two care settings.

Loss of After-School Slots. Children 5 years of age and older who currently receive after-school care in the contracted child care system will not be served in the new EarlyLearn system. As of January 2012, there were 837 children in contracted after-school care through ACS. (Implementation of EarlyLearn will have no impact on children receiving ACS vouchers for after-school child care, although these vouchers are at present unfunded for 2013.) Children who lose access to ACS after-school care are eligible to shift into the Out-of-School Time (OST) program run by the Department of Youth and Community Development. However, OST is also facing a reduction in capacity as a result of its own new RFP which provides funding for 27,000 slots, a decrease of about 50 percent from current service levels. The simultaneous reductions in ACS after-school care and OST would result in a major decrease in after-school services for New York City families beginning in fiscal year 2013.

Funding for EarlyLearn NYC

ACS originally anticipated receiving annual funding of \$487 million for EarlyLearn NYC. However, ACS announced this month that \$28.6 million in funding, which was already in the ACS child care baseline budget but not yet allocated, would now be added to the EarlyLearn system, increasing annual funding to about \$516 million. Multiple funding streams will be utilized. They include: city tax levy; federal/state Child Care Block Grant; federal Head Start Grant; state Universal Pre-Kindergarten funds; and provider contributions. Also, all EarlyLearn NYC programs must participate in the state-run Child and Adult Care Food Program (CACFP) which provides reimbursement to programs serving healthy meals and snacks. CACFP will be the primary funding source for child nutrition expenses. In the event that additional funds become available for EarlyLearn NYC, ACS plans to incorporate them into the service model. However, since the new contracts will be executed for four-year terms, any new funds intended to expand the EarlyLearn system would need to be available on a multiyear basis.

ACS has established maximum per child daily rates providers may charge based on eligibility, service setting and age. In addition to the maximum daily rate, providers operating in leased or privately owned buildings will be entitled to a daily add-on rate determined by eligibility category. Unlike the current child care contracts which compensate providers based on total capacity, EarlyLearn NYC providers will be paid a daily rate in connection with a child's enrollment or attendance. To supplement the daily rate, the RFP requires all providers to contribute at least 6.7 percent of total annual operating costs. The "contractor contribution" may be monetary, in-kind, or both. It may come from vouchers, grants, fundraising, other government contracts (not associated with ACS contracted care) or tuition from private-paying families. In the case of Head Start providers, the contractor contribution may be used for the nonfederal matching requirement as long as it meets federal regulations.

Child care providers and advocates have been very vocal with their concerns about the new system. Though they applaud the city's efforts to improve quality of care while targeting areas identified as "high-need communities," many have expressed doubts as to whether the proposed rates are adequate to cover the costs of the services they will be required to offer. In response, ACS recently announced increases to the rates originally outlined in the RFP. It is not clear whether these rate increases will satisfy provider concerns. Providers also question the method used to determine high-need communities and fear that as a result, concentrated pockets of poverty will not be served. In addition, providers are anxious about how they will meet the 6.7 percent contractor contribution. Lastly, basing payments on actual enrollment or attendance is a big change, which will likely result in less funding for most providers. Many questions will remain unanswered until the system starts up in September.

Other Child Care Funding Issues

The implementation of EarlyLearn must be seen in the context of the ongoing funding problems faced by the child care system. In 2011, when the RFP was being finalized, ACS was projecting a significant funding shortfall; the Mayor's fiscal year 2012 Preliminary Budget predicted a loss of almost 16,000 child care slots if additional funding was not provided. In response, a total of

\$82.2 million was added by the Mayor in the 2012 Executive Budget and the City Council in the Adopted Budget, fully restoring the slots, but for 2012 only. Of this amount, \$21.3 million was provided to fund over 7,700 school age vouchers for ACS after-school care, while \$61 million was made available to fund about 8,200 contracted slots. Of these 8,200 contracted slots, 1,000 were vacant family day care slots that have already been eliminated by ACS. The remaining 7,200 contracted slots were scheduled to disappear in 2013 under the EarlyLearn RFP. As a result of ACS's recent announcement of the additional 1,700 EarlyLearn slots, the number of contracted slots is now expected to decrease by 5,500 from 2012 to 2013. Since the 7,700 school age vouchers are currently unfunded for 2013, the ACS child care system could potentially decrease by a total of about 13,200 slots in the next fiscal year.

A contraction of this magnitude, however, is not inevitable, as the City Council often adds funds to the child care budget as part of the adopted budget process. In addition to the one-year restorations for 2012, the 2012 Executive Budget added \$28.6 million in child care funds for 2013 and the out-years which has now been programmed for EarlyLearn NYC. According to ACS, these baselined funds will be used to augment the EarlyLearn program with \$11 million allocated to increase the per-child rates paid to providers, and the remaining \$17.6 million directed to fund an additional 1,700 contracted slots. Therefore, any further child care

Nearly 16,000 Slots Restored for Fiscal Year 2012

	2012		2013	
	Executive and Adopted Budget Actions		Baselined Funds	
	Slots	Funding (\$)	Slots	Funding (\$)
School Age Voucher Slots	7,744	21,281,000		
Contract Care Slots	5,261	32,490,000	1,700	17,600,000
Subtotal	13,005	53,771,000	1,700	17,600,000
Former Classrooms Council Restoration	2,594	22,024,000		
Day Care Centers Council Restoration	383	6,435,000		
Subtotal	2,977	28,459,000	-	-
EarlyLearn Rate Increase				11,000,000
TOTAL	15,982	82,230,000	1,700	28,600,000

SOURCES: IBO; Administration for Children's Services

NOTE: These are the child care funding restorations which were made in the 2012 Executive Budget and 2012 Adopted Budget, including \$28.6 million that was baselined in 2013. In May 2012, ACS announced that the \$28.6 million would be used to fund a rate increase for EarlyLearn providers (\$11 million) and to expand EarlyLearn capacity by 1,100 center-based slots and 600 family care slots (\$17.6 million).

restorations will require new funds, which could be used to restore the after-school vouchers, add additional vouchers, or further expand the number of contracted slots available under EarlyLearn. Any funds used to expand EarlyLearn, however, would need to be available on a multiyear basis to accommodate the four year terms of the contracts.

How much money would be needed to keep the ACS child care system from shrinking in 2013? Restoring the 7,700 school age voucher slots would cost \$21.3 million, just as it did in 2012. But restoring the contracted slots would cost more than it did a year ago because of the higher EarlyLearn rates. ACS estimates that expanding EarlyLearn would cost about \$11,000 a slot. Therefore, restoring 6,500 contracted slots (including the 1,000 family care slots already eliminated) would cost \$71.5 million and require a multiyear commitment. A total restoration of school age vouchers and contracted slots would thus cost about \$93 million.

If you have any further questions regarding this request, please do not hesitate to contact me at 212-442-8642 or Lauren Biscone, IBO's child care analyst, at 212-676-9248.

Sincerely,



Ronnie Lowenstein
Director