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Testimony of Sarita Subramanian
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To the New York City Council Committee on Education Regarding Oversight
of 3-K Funding Cuts and Delayed Payments to Early Childhood Providers
February 15, 2023

Good afternoon, Chair Joseph and members of the Education Committee. My name is Sarita Subramanian and I am the assistant director for education at the New York City Independent Budget Office. Thank you for the opportunity to testify at this oversight hearing on 3-K funding and payments to early childhood providers. In my testimony, I will first discuss the Department of Education's (DOE's) total early childhood expenditures—which include 3-K for three-year-olds, universal pre-K for four-year-olds, Early Learn for NYC contracted care, and Head Start programs which are operated through federal contracts administered by the city.

Then I will focus on payments to 3-K and universal pre-K providers as of the Mayor's Preliminary Budget released last month. I will report on the following amounts: the budget for this fiscal year, the commitments (reflecting contracts that are registered, invoices that are submitted and approved for payment, or invoices already paid), and expenditures (reflecting payments made). Expenditures are a component of commitments, therefore a large difference between the two numbers suggests a potential delay in payments after DOE has agreed to make payments. I will compare these amounts to those from the Preliminary Budget last year to see if a larger share of payments has been made so far this year. Finally, IBO supports the passage of Intro 843 as it would bring increased fiscal transparency to payments to early childhood providers.

Early Childhood Expenditures and Estimated Budget over Ten Years

The DOE's expenditures for early childhood programs have more than doubled since the 2017-2018 school year, the first year that 3-K was launched and when the Early Learn programs (and subsequently Head Start programs) were first transitioned to DOE's purview from the Administration for Children's Services. During the last school year (2021-2022), DOE expenditures for early childhood were more than \$2 billion—up from about \$911 million in 2017-2018.

Almost half of last year's early childhood spending (\$1 billion, 47 percent) funded the city's universal pre-K program. As 3-K expanded to citywide (although not universal) access during the last school year, it comprised about 27 percent of the early childhood budget (\$569 million). Early Learn and Head Start accounted for 21 percent and 6 percent of early childhood expenditures, respectively.

Early Childhood Expenditures at DOE Have More than Doubled Since 2017-2018 School Year

Dollars in millions

Early Childhood Program	School Years					
	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Universal Pre-K	\$849	\$893	\$954	\$920	\$922	\$1,008
3-K	-	7	52	153	168	569
Early Learn	-	11	18	404	382	441
Head Start	-	-	66	189	169	128
Total Early Childhood	\$849	\$911	\$1,090	\$1,666	\$1,641	\$2,146

SOURCE: IBO analysis of city's Financial Management System data.

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From 2020-2021 to 2021-2022, 3-K enrollment more than doubled from 15,480 students to 34,300 students based on the city's audited enrollment data. As with pre-K, 3-K is offered in the city's traditional public schools and in contracted New York City Early Education Centers (NYCEECs), which include programs operated by community-based organizations, Early Learn programs, and Head Start programs. However, the city's 3-K expansion has relied increasingly on participating NYCEECs: last school year, 74 percent of 3-K students attended NYCEECs. In contrast, only 51 percent of pre-K students attended NYCEECs.

Also, unlike pre-K where the city secured additional state funding for universal access, the city's 3-K expansion relies on federal Covid aid that will expire by the 2024-2025 school year. Last school year, two-thirds of 3-K expenditures were funded by federal aid, with a similar share expected to pay for 3-K this year and next year. In the Mayor's November Financial Plan, the plans for 3-K expansion were scaled back and the projected budget for 2023-2024 (and annually thereafter) was reduced by \$283 million citing lower than expected enrollment. As a result, the reliance on federal relief aid was reduced for that year and the next. With additional city funds included for 2024-2025, only 13 percent of the 3-K budget will be supported by the federal aid. After the expiration of those relief funds, a gap of \$92 million remains for the 2025-2026 school year based on projected 3-K expenditures.

In addition, the Adams administration's Preliminary Budget, released last month, included \$70 million in a fund managed by the city's Economic Development Corporation as part of an effort to expedite payments to the city's contracted early childhood education providers that were not paid for at least 75 percent of their annual contract by the DOE from the last school year. Another \$1 million is being dedicated to a childcare marketing campaign, which may include 3K. These funds were included in the corporation's fiscal year 2023 budget.

DOE Budget for 3-K Relies Primarily on Federal Covid Relief Aid Through 2023-2024						
<i>Dollars in millions</i>						
3-K Funding Source	School Years					
	2020-2021	2021-2022	Projected 2022-2023*	Projected 2023-2024	Projected 2024-2025	Projected 2025-2026
City Funds	\$162	\$186	\$242	\$242	\$619	\$619
Federal Covid Relief Funds**	6	383	469	469	92	-
3-K Total	\$168	\$569	\$711	\$711	\$711	\$619
SOURCE: IBO analysis of city's Financial Management System data. NOTES: *Projected 2022-2023 figures excludes an additional \$70 million in the city's Economic Development Corporation budget for expedited payments for 3-K providers from the previous school year. **The city received \$2.1 billion in education aid from Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) to be spent by September 2023 and an additional \$4.8 billion in education aid from the American Rescue Plan Act (ARPA) to be spent by September 2024.						
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Tracking Payments to 3-K and Pre-K Childcare Providers

Because over half of 3-K and pre-K students are served by contracted providers, IBO also analyzed how payments to providers for these students this year compared with payments last year, when many providers began reporting payment delays. The payment process is divided into four steps— first, the DOE must register contracts with the city’s Comptroller’s Office; second, providers must submit invoices based on actual enrollment; third, the DOE must approve invoices and finally, the DOE makes payments to providers. Delays in payments last year were due to issues with providers submitting invoices and issues with DOE processing payments. Lower than expected enrollment in 3-K has resulted in not only a reduction in the budget by the Adams administration, but also affected invoice submission by providers, who were unable to meet enrollment targets. In testimony at the City Council hearing in October 2022, the DOE reported on improvements to invoice processing and making payments faster by reducing paperwork for providers, and ensuring there was sufficient DOE staff to process invoices and provide training so providers could submit invoices according to DOE specifications.

Based on our analysis, it appears that fewer delays in registering contracts and receiving and processing invoices from providers—reflected in a greater level of commitments—have led to an increase in overall expenditures this year compared with last year. As of the release of the Preliminary Budget this year, 79 percent of budgeted funds to 3-K and pre-K providers had been committed, meaning the city had agreed to make payments to providers. As of the Preliminary Budget last year (which was released about a month later than this year), only 61 percent of funds had been committed.

In terms of actual expenditures, a larger share of this year’s budget has been expended compared with a similar time last year. This year, 60 percent of budgeted funds have been spent (\$500 million) as of the release of the Preliminary Budget, compared with 44 percent of last year’s budgeted funds as of the release of last year’s Preliminary Budget (\$335 million). When we looked at expenditures as a share of commitments, however, we found a similar share this year (77 percent) compared with last year (73

percent) indicating that once the DOE agrees to make payments, there does not appear to be much difference in the timing of payments compared with last year. As of the release of the Preliminary Budget this year, \$152 million had been committed but not yet expended.

Payments to 3-K and Pre-K Providers Are Higher This Year Compared with Last Year			
<i>Dollars in millions</i>			
Fiscal Year	Budget	Commitments	Expenditures
2022	\$758	\$461	\$335
2023	828	652	500

SOURCE: IBO analysis of city's Financial Management System data.
NOTES: Amounts for each fiscal year are reported as of the Mayor's Preliminary 2023 and 2024 Budgets, respectively.
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Thank you for the opportunity to testify and I am happy to answer any questions.