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EarlyLearn Takes Its First Steps:

City's Redesigned Subsidized Child Care System Still Faces Challenges

Summary

In October, the city began providing subsidized child care under the guidelines of its new EarlyLearn NYC program. The Bloomberg Administration's goal for the redesigned child care system is to better integrate Head Start and other child care programs provided through contracts with the city into a standardized and improved system for providing subsidized care. This includes expanding services in communities that the Mayor's office defines as having the greatest need as well as increasing child care slots for infants and toddlers.

IBO has looked at the initial stages of the transition to the new program, with particular attention to budget issues and the availability of subsidized child care. Among the highlights of our review:

- Despite an uptick this year, the availability of child care slots is trending downwards for families who are not receiving public assistance. Under current plans, the number of slots under contract with the city and available for children in low-income families would fall about 3,000 below the fiscal year 2012 level next year to about 46,000.
- The child care system remains considerably reliant on annual funding allocations from the City Council, fostering uncertainty about funding levels and undermining the goals of expanding the availability of care for younger children and improving care. The Council provided nearly \$40 million of EarlyLearn's \$457.8 million budget this year.
- Agencies that provide child care services under contract with the city are concerned that reimbursement rates under EarlyLearn are not sufficient to cover costs, particularly since contractors must now pay a share of health insurance premiums for their employees as well as make a "contribution" to the total operating cost of providing daily child care. Child care agencies have also voiced concerns about the shift to basing reimbursements on enrollment rather than capacity.

The potential for declining federal and state support for child care may pose additional challenges to meeting EarlyLearn's goals and maintaining the level of day care in the city. In addition to local dollars, EarlyLearn depends on federal and state Child Care Block Grant funds, which could be threatened by ongoing budget problems in Washington and Albany. The city also faces the possibility of a reduction to its Head Start award, another key funding source for EarlyLearn.

Much of the debate during the adoption of this year's budget was focused on proposed cuts to the city's child care system, primarily resulting from the implementation of EarlyLearn NYC—the Bloomberg Administration's new plan for managing and standardizing all child care under contract with private agencies in New York City. The 2013 Preliminary Budget, released in January 2012, projected a loss of nearly 7,200 contracted child care slots—about 15 percent of the contracted system—as well as a reduction of thousands of child care vouchers for school-age children. In response to concerns about the decrease in child care services, in May of this year the Administration for Children's Services (ACS) directed \$28.6 million in previously unallocated funds to add 1,700 contracted child care slots to the EarlyLearn program. A month later, during negotiations leading to the 2013 Adopted Budget, the Bloomberg Administration and the City Council added even more for the program, providing just over \$83 million to fund another 7,366 contracted slots and 4,400 vouchers that can be used by the families of school age children to secure after-school care. These funding additions halted—at least temporarily—the long-term decline in the number of children receiving subsidized child care in the city.

This report looks at how the implementation of the EarlyLearn NYC program will impact the overall capacity of the city's subsidized child care system in the near term. It also considers other funding issues that could further affect the availability of subsidized child care in New York City.

The EarlyLearn NYC Initiative

In April 2010, ACS issued a concept paper describing the agency's 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 child 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 the concentration of children eligible for subsidies along with other community characteristics. As stated in the concept paper, EarlyLearn NYC will focus on: expanding infant and toddler placements, increasing support for children and families served, ensuring that each child's needs and each program's performance are properly assessed, and making enrollment easier.

A Request for Proposals (RFP) was issued in May 2011 which required 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 the selection of 149 recommended awardees for EarlyLearn NYC contracts. In addition, the City Council provided discretionary funding for 58 center-based organizations and four Family Child Care Networks in the 2013 Adopted Budget.¹ All of the EarlyLearn programs were expected to begin operation on October 1, 2012.

Background

ACS administers the largest municipal child care system in the country, providing subsidies for over 98,000 children as of June 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 upon 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 in their choice of center-based day care, family or group family day care, or informal care; eligible low-income working families receive vouchers or slots in ACS contracted child care facilities only as space permits. To determine a child's eligibility for subsidized care, an eligibility assessment is conducted by ACS based on specific financial and social criteria determined by the federal, state, and local governments.

Enrollment in the city's child care system has decreased steadily over the last several years from an all-time peak of 116,355 in fiscal year 2006 to 95,977 in 2012.² 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. (See IBO fiscal brief [City's Subsidized Child Care System Faces Rising Costs, Shrinking Funds](#), October 2010.) In order to maintain service levels despite declining funds, ACS has attempted to lower the per child cost of care by increasing co-payments from families where possible, reducing administrative costs, and proposing that contractors be paid based on actual enrollment rather than capacity. This payment proposal, known as Project Full Enrollment, has been incorporated into the EarlyLearn program.

New York City Child Care Enrollment Has Declined			
	2006 Average	2012 Average	Change
Low Income			
Center-based	40,077	28,148	(11,929)
Family and Group Family	12,355	11,632	(723)
Informal	6,721	4,417	(2,304)
Total Enrollment	59,153	44,197	(14,956)
Public Assistance			
Center-based	8,621	14,496	5,875
Family and Group Family	6,802	15,249	8,447
Informal	41,779	22,035	(19,744)
Total Enrollment	57,202	51,780	(5,422)
Combined Low Income and Public Assistance			
Center-based	48,698	42,644	(6,054)
Family and Group Family	19,157	26,881	7,724
Informal	48,500	26,452	(22,048)
Total Enrollment	116,355	95,977	(20,378)
SOURCES: IBO; Administration for Children's Services; Human Resources Administration			
NOTES: 2006 and 2012 are averages of monthly figures for that fiscal year. These numbers do not include Head Start enrollment.			

In addition to providing subsidized child care options, for years ACS has sponsored 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. (This matching component approach is also used in the EarlyLearn program.) In the past, there has been a considerable overlap between Head Start and other subsidized child care programs in the city, as a child may be eligible for both Head Start and child care funds. While enrollment in the city's 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 fully woven into the contracted child care system. To reflect the integration of these two programs, ACS has renamed its Division of Child Care and Head Start: it is now called the Division of Early Care and Education.

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

The implementation of EarlyLearn NYC blends together two distinct early childhood programs at ACS: contracted child

care and Head Start. It has no impact on the number of child care vouchers offered by ACS. This means that about 60 percent of the combined number of child care and Head Start slots available through ACS in 2012 have not been affected by EarlyLearn, including the entire child care system serving families on public assistance.

According to the original RFP, EarlyLearn NYC was intended to provide 41,764 contracted slots for children from ages 6 weeks to 4 years in 2013. This figure would have meant a loss of 7,200 slots when compared with the existing contracted child care and Head Start systems which together provided 48,971 slots in 2012. In early May of this year, ACS augmented their original plan by adding 1,700 slots using funds that were included in the agency's budget for fiscal year 2013 but had not been previously allocated. These additional slots reduced the projected loss to 5,500 slots. However, advocates, providers, parents, and the City Council were still unhappy with the impending contraction of the child care system. In response to continued pressure, the 2013 Adopted Budget included an additional 7,366 slots. The Bloomberg Administration funded 2,447 of the added slots and the City Council funded the other 4,919. The substantial increase in the number of slots in the adopted budget completely offsets any losses and actually increases the system's size by 1,859 slots for this year.

Though total slots have increased for 2013, there could be losses in 2014 and beyond. While over 4,000 of the slots that were added during EarlyLearn's evolution have been built into the ACS budget for future years, the slots added by the City Council are only funded for one year. This means that beginning in 2014, there is no funding currently identified for just over 4,900 slots. Therefore as currently funded, the child care system under EarlyLearn NYC would decrease by 3,060 slots in 2014 and beyond when compared with the system's capacity in 2012. (The 1,859 slots added from 2012 to 2013 minus the 4,919 slots that would be lost from 2013 to 2014 results in the net decline of 3,060 slots from 2012 to 2014.)

EarlyLearn NYC provides child care in two different care settings. In 2013, 41,130 slots are available in center-based settings that provide care for children from ages 6 weeks through 4 years. These centers may offer Head Start and must offer Universal Pre-Kindergarten programs on site. About 3,600 of the center-based slots were expected to be set aside for children who are dually eligible for both child care and Head Start subsidies. There are 9,700 slots available 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 networks are not permitted to provide care for 4 year olds or to offer Head Start and pre-kindergarten programs, the networks are strongly encouraged to link up with nearby centers in order to more easily facilitate a family's transition between the two care settings. All of the networks which were awarded contracts by ACS are attached to centers to support the flow of children from a family day care setting to a center-based setting.

Loss of After-School Slots. Children 5 years of age and older who receive after-school care in the contracted child care system are not being served in the new EarlyLearn program. There were about 800 children in contracted after-school care through ACS in June 2012. (As previously noted, EarlyLearn makes no changes to the voucher-based child care system and therefore implementation of EarlyLearn will have no impact on children receiving ACS vouchers for after-school child care.) Those children who lost access to ACS after-school care due to EarlyLearn are eligible to shift into the Out-of-School Time (OST) program run by the Department of Youth and Community Development.

OST also went through a recent program redesign which would have decreased its capacity by nearly 50 percent from prior service levels. However, the City Council provided funding for nearly 30,000 additional slots in this year's adopted budget to preserve the program's capacity in 2013. (See IBO fiscal brief [Budget Swings & Program Changes Mean City's Out-of-School Time Initiative Keeps Evolving](#), September 2012.) As a result of the Council's

additions, OST will serve roughly 4,000 more children in 2013 than it did in 2012. For the time being, the impact of the reductions in ACS after-school care has been mitigated by a larger OST program in 2013.

Funding for EarlyLearn NYC

Funding for EarlyLearn has gradually increased since the initial \$487 million proposed in the May 2011 RFP. In 2012, the Bloomberg Administration twice added funds for more slots and increased reimbursement rates for providers, bringing full-year funding for the program to \$558 million. In addition, the City Council provided a one-time funding increase of nearly \$40 million in the 2013 Adopted Budget.

Multiple funding streams will be used for EarlyLearn. They include city-generated dollars, federal/state Child Care Block Grant, federal Head Start Grant, state Universal Pre-Kindergarten funds, and provider contributions. All EarlyLearn NYC programs must also participate in the state-run Child and Adult Care Food Program, which provides reimbursement to programs serving healthy meals and snacks. The state food program is the primary funding source for EarlyLearn's child nutrition expenses. In the event that additional funds become available for EarlyLearn, ACS plans to incorporate them into the service model to fund additional slots or increases in provider reimbursement rates. Ideally any new funds intended to expand the system would need to be available on a multiyear basis as the program's contracts are executed for four-year terms. However, accommodations will need to be made in the case of City Council discretionary funding, which is provided for one year only.

Evolution of Slots Under EarlyLearn NYC

	Budgeted Slots				
	Fiscal Year 2012 Budgeted Slots	Early Learn RFP May 2011	With Slots Added in May 2012	With Slots Added in June 2012	Change From Fiscal Year 2012
Center-Based					
Child Care with Duals	21,600	19,060	20,160	25,426	3,826
Head Start with Duals	19,311	19,311	19,311	19,311	0
Dual Child Care & Head Start	(2,016)	(3,607)	(3,607)	(3,607)	(1,591)
Total Child Care & Head Start Centers Net of Duals	38,895	34,764	35,864	41,130	2,235
Family Child Care	10,076	7,000	7,600	9,700	(376)
Total Contracted	48,971	41,764	43,464	50,830	1,859

SOURCES: IBO; Mayor's Office of Management and Budget; Administration for Children's Services
NOTE: "Duals" refers to slots counted as both child care and Head Start.

ACS has established maximum per child daily rates that providers may charge the city 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 (noted as contractor leases in the charts below). Unlike the child care contracts used until now, which compensated providers based on total capacity, EarlyLearn NYC providers will be paid a daily rate based on the number of children actually enrolled.

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 donations, 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.

In the 2013 Adopted Budget, the City Council included \$39.3 million to fund 4,919 additional slots in EarlyLearn for one year only. On July 25, 2012, when the City Council issued its annual budget transparency resolution designating individual awardees, it allocated funding for 62 programs (4,989 slots) totaling \$44.4 million. Therefore the funds allocated by the Council for EarlyLearn exceed the amount budgeted for the program by about \$5 million. At this time, the City Council has not identified a funding source to resolve this discrepancy, nor has the Bloomberg Administration made any modifications to the existing budget.

The Impact on Providers. Ever since the RFP was released, child care providers and advocates have expressed doubts as to whether the proposed rates are adequate to cover

the costs of the services they will be required to offer under EarlyLearn. These concerns persist, despite increases in reimbursement rates.

To address concerns over the adequacy of funding, the Bloomberg Administration increased the provider reimbursement rates on two separate occasions. In May, using unallocated funds that had been set aside in the fiscal year 2012 Executive Budget, \$11 million was added on an annual basis to increase the rate paid to providers of center-based care for pre-school age children.³ In the 2013 Adopted Budget, an additional \$16 million a year was added to increase the daily rate for all ages and types of child care. While these increases will help providers as they comply with the terms of the RFP, some providers and advocates maintain that they are not enough to offset an additional cost providers now face—having to extend health insurance to their employees.

Under EarlyLearn, the city no longer provides day care employees with health insurance. Instead, child care providers must independently procure and offer health insurance to their employees. The Day Care Council and the Head Start Sponsoring Board Council have secured health insurance plans for providers to offer. Under an agreement reached through collective bargaining, employees will be responsible for 15 percent of the total insurance premium, while employers will be responsible for 80 percent and the union welfare fund for the remaining 5 percent.

Another financial issue raised by many providers is the shift to basing payments on actual enrollment rather than on capacity. As the contracts took effect, not all children enrolled by child care providers had been approved for eligibility by ACS. To ease the transition from the old system to the new, ACS informed providers that payment for the

EarlyLearn Funding for Fiscal Year 2013		EarlyLearn Funding for Fiscal Year 2014	
Base Funding	\$351,300,000	Base Funding	\$468,400,000
Contractor Leases	13,950,000	Contractor Leases	18,600,000
Subtotal	\$365,250,000	Subtotal	\$487,000,000
May 2012 Rate Increase	\$8,250,000	May 2012 Rate Increase	\$11,000,000
May 2012 Slot Increase	13,200,000	May 2012 Slot Increase	17,600,000
June 2012 Rate Increase	12,000,000	June 2012 Rate Increase	16,000,000
June 2012 Slot Increase	19,800,000	June 2012 Slot Increase	\$26,340,000
Mayoral Adds Subtotal	\$53,250,000	Mayoral Adds Subtotal	\$70,940,000
City Council Slot Increase	\$39,304,000		
Fiscal Year 2013 EarlyLearn	\$457,804,000	Fiscal Year 2014 EarlyLearn	\$557,940,000

SOURCES: IBO; Mayor’s Office of Management and Budget; Administration for Children’s Services; City Council Finance Division
 NOTE: Funding for fiscal year 2013 is for the last three quarters of the fiscal year, as the program began on October 1, 2012.

first 90 days of the contract will be calculated assuming 100 percent enrollment and reconciliation with actual enrollment will be made later in the year. Even with a less abrupt transition, moving to a reimbursement system based on enrollment is a big change which will likely create budgetary uncertainties for most providers.

Other Child Care Funding Issues

The implementation of EarlyLearn must be seen in the larger context of the ongoing funding problems faced by the child care system. For some time, a significant portion of child care funding has been allocated on a one-year basis, creating an annual threat to the size of the system. As a result of the city's continuing budget problems, in recent years the Mayor's financial plans have frequently included proposed child care funding reductions. While the City Council has generally managed to head off most of the proposed reductions by adding funds in the adopted budget, the budget process has created uncertainties for both child care providers and recipients. EarlyLearn was designed in part to allay these concerns by providing funding for all contracted child care on a multiyear basis. The 2013 budget, however, includes significant amounts of one-time child care funding, resulting in continuing challenges in future years.

In 2011, when the EarlyLearn RFP was being finalized, ACS was projecting a considerable funding shortfall. The Mayor's fiscal year 2012 Preliminary Budget, released in January 2011, forecast a loss of almost 16,000 child care slots if additional funding was not provided. To avert these losses, just over \$82 million was added by the Mayor and the City Council in June 2011, fully restoring the slots, but

for 2012 only. Of this amount, \$21 million was provided to fund 7,744 school age vouchers for ACS after-school care, while \$61 million was made available to fund about 8,200 contracted slots. Notably, of these 8,200 contracted slots, 1,000 were family day care slots that were not being used at the time and that have since been eliminated by ACS. The remaining 7,200 contracted slots were scheduled to disappear in 2013 under the EarlyLearn RFP. As a result of the various additions to EarlyLearn during this year's budget process, the number of contracted slots is now expected to increase by 1,859 from 2012 to 2013. The 2013 budget also included a restoration vouchers for school-age children, but the number restored was roughly half the number of vouchers restored for 2012.

The 2012 Preliminary Budget also included a proposed reduction of 7,744 school-age vouchers. The plan was to eliminate Priority 5 and Priority 6 vouchers for children from low-income families who had been receiving service the longest. (Priority 5 vouchers serve families with parents who work 20 hours or more per week, and Priority 6 vouchers serve families with parents who are in education and training programs.) The cut was later reversed with the Bloomberg Administration restoring 3,452 vouchers and the City Council restoring 4,292 vouchers, both for one year only. Due to the limited availability of funding, these restored school-age vouchers were funded at a lower rate—\$2,748 per voucher—than the average rate of \$5,632 per school-age voucher in 2011. Parents receiving these vouchers were instructed to seek a service provider that would accept the reduced rate.

During negotiations to fund the reduced-rate school-age vouchers for another year as part of the 2013 Adopted

Child Care Restorations and Additions in 2012 and 2013						
	2012		2013			
	Executive & Adopted Budget Actions		Previously Unallocated Funding		Adopted Budget Actions	
	Slots	Funding	Slots	Funding	Slots	Funding
Contract Care Slots Restoration	8,238	\$60,949,000	1,700	\$17,600,000	7,366	\$59,100,000
School Age Vouchers Restoration	7,744	21,281,000			4,400	12,100,000
Subtotal	15,982	\$82,230,000	1,700	\$17,600,000	11,766	\$71,200,000
EarlyLearn Rate Enhancement				\$11,000,000		\$12,000,000
TOTAL	15,982	\$82,230,000	1,700	\$28,600,000	11,766	83,200,000

SOURCES: IBO; Mayor's Office of Management and Budget; Administration for Children's Services
 NOTES: The contract care slots restored in 2012 include former classroom slots (2,594) and day care center slots (383), which were restored by the City Council. The contract care slots added at 2013 Budget Adoption were provided by the Bloomberg Administration and the City Council. The Bloomberg Administration provided 2,447 slots that are funded in fiscal year 2013 and beyond. The City Council provided 4,919 slots that are funded only in Fiscal Year 2013. "Previously Unallocated Funding" describes funds that had been included in the Administration for Children's Services budget for 2013 but had not been allocated.

Budget, ACS informed the City Council that the population receiving these reduced-rate vouchers had decreased and that only 4,300 vouchers would need to be restored. The agency indicated that over the course of the year 1,400 children had aged out of the system, while another 2,000 had dropped out for unknown reasons. It is possible that many of these families were unable to find child care providers who were willing to accept the reduced rate. Based on this information, the City Council restored 4,400 school age vouchers at the reduced rate, for 2013 only. This meant that 3,344 vouchers originally slated for elimination were not restored.

Though school-age voucher enrollment remains steady, costs to fund these vouchers may increase. The total number of children receiving school age vouchers through ACS remained relatively consistent over the course of fiscal year 2012 at around 10,000. Not surprisingly, this means that children continue to enter ACS school age child care as new clients, replacing those who age out or drop out. These new clients are eligible for the higher voucher rate of over \$5,000 rather than the reduced rate of \$2,748. As a result, more funding could be needed to maintain the school age voucher system at its current capacity.

Future Challenges

With EarlyLearn NYC, the Bloomberg Administration hopes to provide higher quality child care to populations with the greatest need throughout the city. The implementation of EarlyLearn, however, is occurring in the context of a child care system that has been steadily contracting over the last several years as a result of city funding cuts, a leveling off of federal funds, and rising provider costs. The 2013 budget for EarlyLearn includes about \$40 million in City Council discretionary funds that are not currently in the financial plan for next year. At the same time, the city's continuing fiscal problems pose an ongoing threat to child care funding. While the financial plan released in November

2012 includes no new reductions to the city's contracted child care system, it does include further decreases in low-income vouchers. Risks to the various funding streams on which EarlyLearn depends could increase in the near future. According to a [report](#) by Manhattan Borough President Scott M. Stringer and Congressmembers Carolyn B. Mahoney and Jerrold Nadler, \$16 million of the Child Care and Development Block Grant could be sequestered by the federal government.

The city faces an additional risk to its annual Head Start award, which comprises a significant portion of the funding being directed towards the EarlyLearn program. After failing to meet quality thresholds established by the federal Office of Head Start, ACS was instructed to reapply for its Head Start grant for the coming federal fiscal year. The application has since been submitted to the federal government and the new award will begin in July 2013. As part of this new competition, independent contractors are also allowed to apply to the federal government for direct grants, effectively bypassing ACS. Of the \$190 million now available for New York City, it is uncertain how much will be retained by ACS when the new award is announced. To the extent that independent contractors are able to win Head Start awards away from the city, fewer funds would be available for EarlyLearn.

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Endnotes

¹While the money provided by the City Council is intended to fund slots within and in addition to the EarlyLearn program, ACS does not characterize the discretionary funding as part of the EarlyLearn funding model. For the purposes of this fiscal brief, IBO has referred to the City Council's discretionary funding as EarlyLearn funds because they have been used to augment the size of the child care system for 2013.

²All years referenced are fiscal years unless otherwise noted. Fiscal year enrollment and capacity figures are averages over the entire 12 months.

³This rate enhancement supports pre-school age children eligible only for child care subsidies provided in center-based settings. It will not affect school-age children eligible for Head Start subsidies or dually eligible children.

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