Center for New York City Affairs
The New School
New York, NY 10011
www.centernyc.org

Testimony before the
Joint Legislative Hearing Committee on 2024-25 Executive Budget Proposal:
Human Services

January 31, 2024

Lauren Melodia
Deputy Director of Economic and Fiscal Policies
Center for New York City Affairs at The New School

Good morning distinguished chairpersons and members of the New York State Legislature. My name is Lauren Melodia, and I am the Deputy Director of Economic and Fiscal Policies at the Center for New York City Affairs (CNYCA) at The New School. Thank you for the opportunity to testify.

The Center for New York City Affairs is an applied economic research institute. We analyze economic data at the city and state level to identify how broader economic changes affect New Yorkers, particularly those working in low-wage sectors. Today, I will focus my testimony on how the Center's labor market and economic research points to urgent gaps in the Governor's 2024-25 Human Services budget section on child care and ways the Legislature can address those gaps.

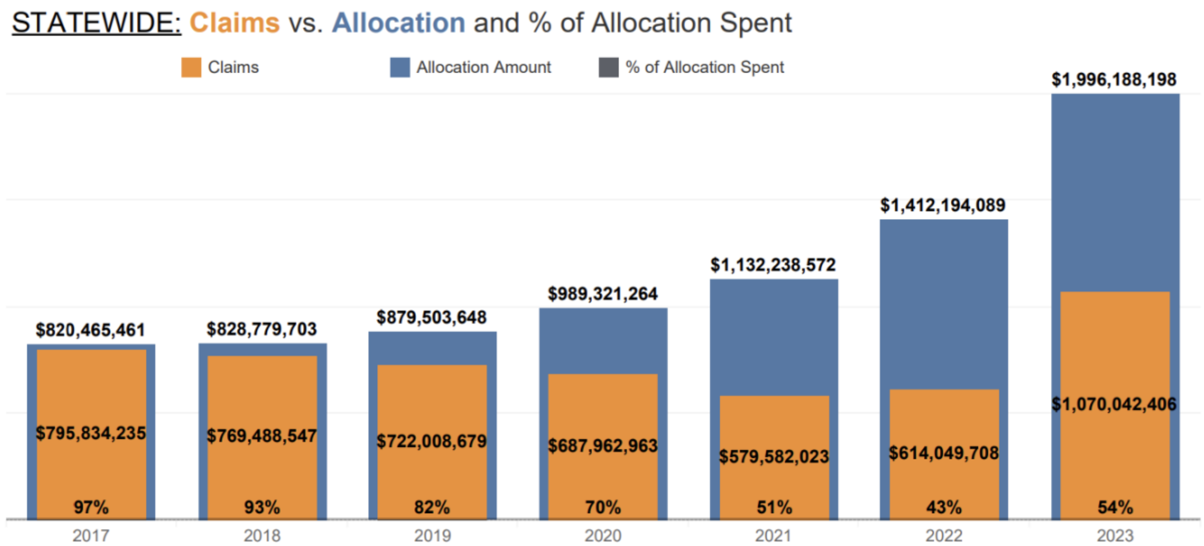
In recent years the Governor and Legislature have made historic investments in the State's child care program, which works to regulate and support licensed child care providers and also administers the Child Care Assistance Program (CCAP), which provides vouchers to income eligible families to cover the majority of their child care tuition. These investments are absolutely worth celebrating. Increasing the income eligibility for Child Care Assistance Program (CCAP) vouchers and capping co-pays has made child care more affordable and accessible to families. Increasing the CCAP voucher reimbursement rate to the 80th percentile has increased revenue for child care programs operating on razor thin margins. Furthermore, the direct support New York State has provided to child care programs with federal pandemic assistance – stabilization grants, child care desert grants and workforce retention grants totaling $1.7 billion – have been critical for addressing some of the long-standing shortfalls in revenue in the child care sector.

However, there is a long-standing crisis in the child care sector that is preventing these historic investments and policy changes from having the impact they are intended to have: low-pay in the child care sector that compromises the supply of child care at a time when there is growing access to and demand for it. Governor Hochul's 2024-25 Executive Budget includes zero dollars dedicated to addressing these needs of the child care workforce. Meanwhile, legislative changes in the past two years to increase eligibility for families to access CCAP vouchers add additional pressure to an already unsustainable and unstable child care system. There is an urgent need for the Legislature to create permanent solutions to low-pay in the sector in this year's State budget so that the economics of child care work and these existing commitments can be implemented smoothly and ethically.

First, on the topic of smoothly implementing the State's commitment to expanded CCAP voucher access. Each year, including this one, the State has put more money in the CCAP program to meet estimated need amongst parents. Memos to local social service districts have instructed them to clear the waitlist of CCAP applicants from their desks. I pulled Figure 1 from an Office of Children and Families Services (OCFS) report updated in January 2024. It shows a new trend in recent years: that CCAP funds are not being spent. We know that, due to Covid-19 disruptions, local social service districts were able to rollover

over more of this funding than in previous years. We also know that the data on 2023 is not final. However, the 2022 data is likely a good measure of what's happening when more money is put into CCAP without raising voucher rates sufficiently. Only 43% of the $1.4 billion earmarked for the 2022 CCAP vouchers budget were spent. This is a sign that the child care CCAP eligible families need is not available in their community. There is not sufficient supply to meet demand.

Figure 1



CCAP voucher recipients in New York State are able to spend their vouchers at a child care program of their choosing so long as the program is willing to accept the voucher, the value of which is determined during a market rate methodology administered by OCFS, which includes pay differentials by child care program type and state region. Figure 2 illustrates how over half of CCAP vouchers in 2022 were spent at home-based child care programs (Family Day Care, Group Family Day Care, or legally exempt family providers), which is not surprising since these programs tend to be more likely to offer nontraditional hours and other services in higher demand amongst low-income working families. However, the number of home-based providers in New York State has also been on a steady decline both during and before the pandemic. Figure 3 illustrates the change in the number of facilities by program type from 2014 to 2022 in New York City and the rest of the state. Not only has New York City and the rest of the state seen an overall decline in child care programs at 16 and 18%, respectively, but the decline in programs has been heavily concentrated in home-based programs.

Home-based programs receive the lowest CCAP voucher rate in the state. While the voucher rate across the board was raised to the 80th percentile market rate response by program type and region last year, this increase was insufficient to cover the cost of care and maintains a pay differential between program types that threatens the supply of child care programs in general and home-based programs in particular. If the CCAP voucher rate had been increased more alongside the expansion of the program, I expect more CCAP funds would have been utilized year-to-year, because families would have had more child care programs in their community where they could have spent them.

Figure 2:

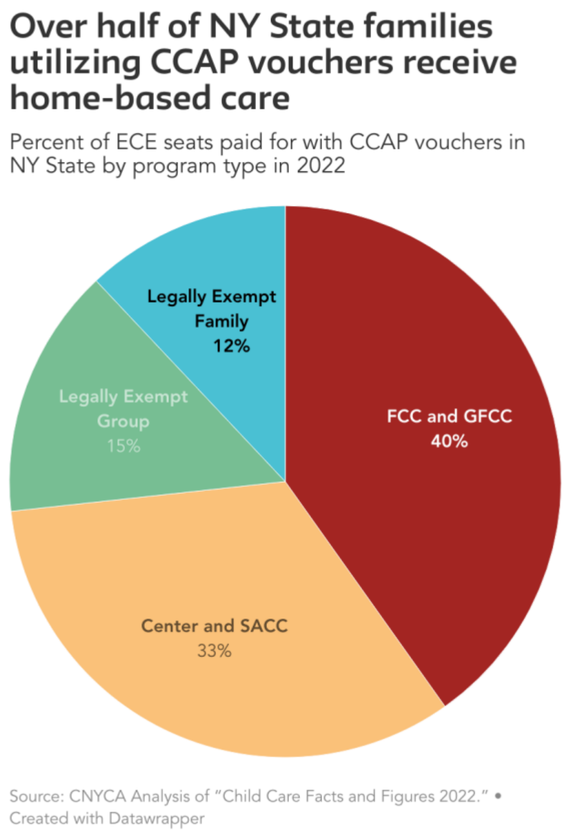
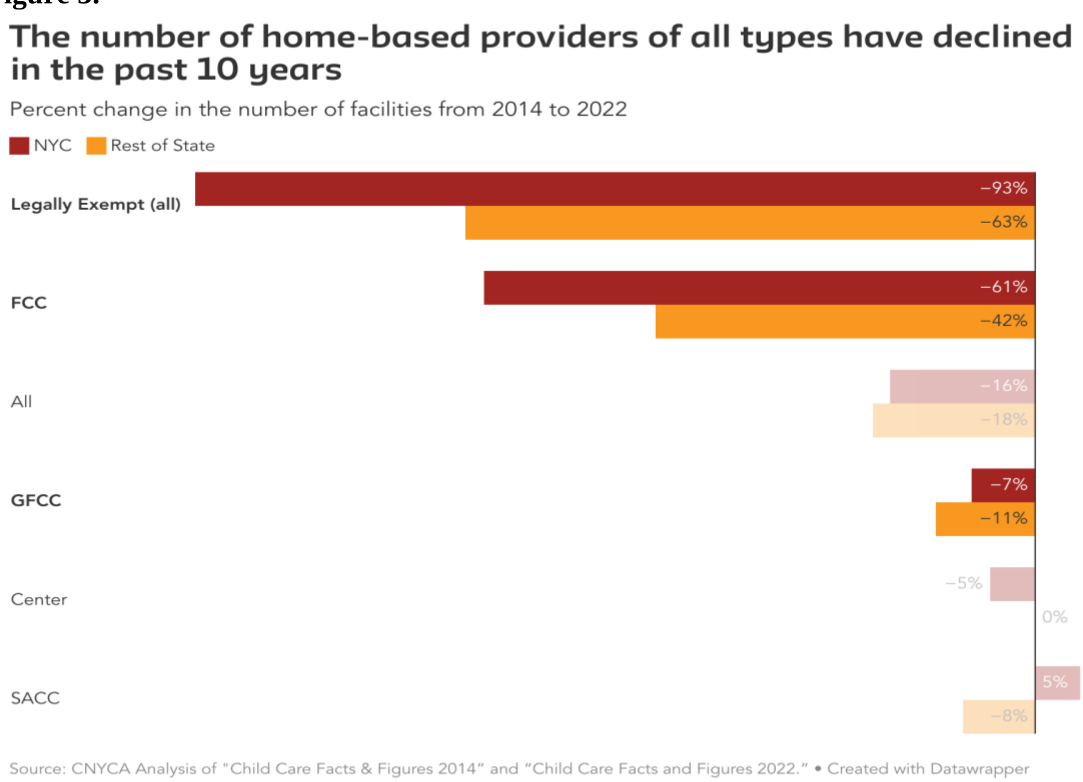
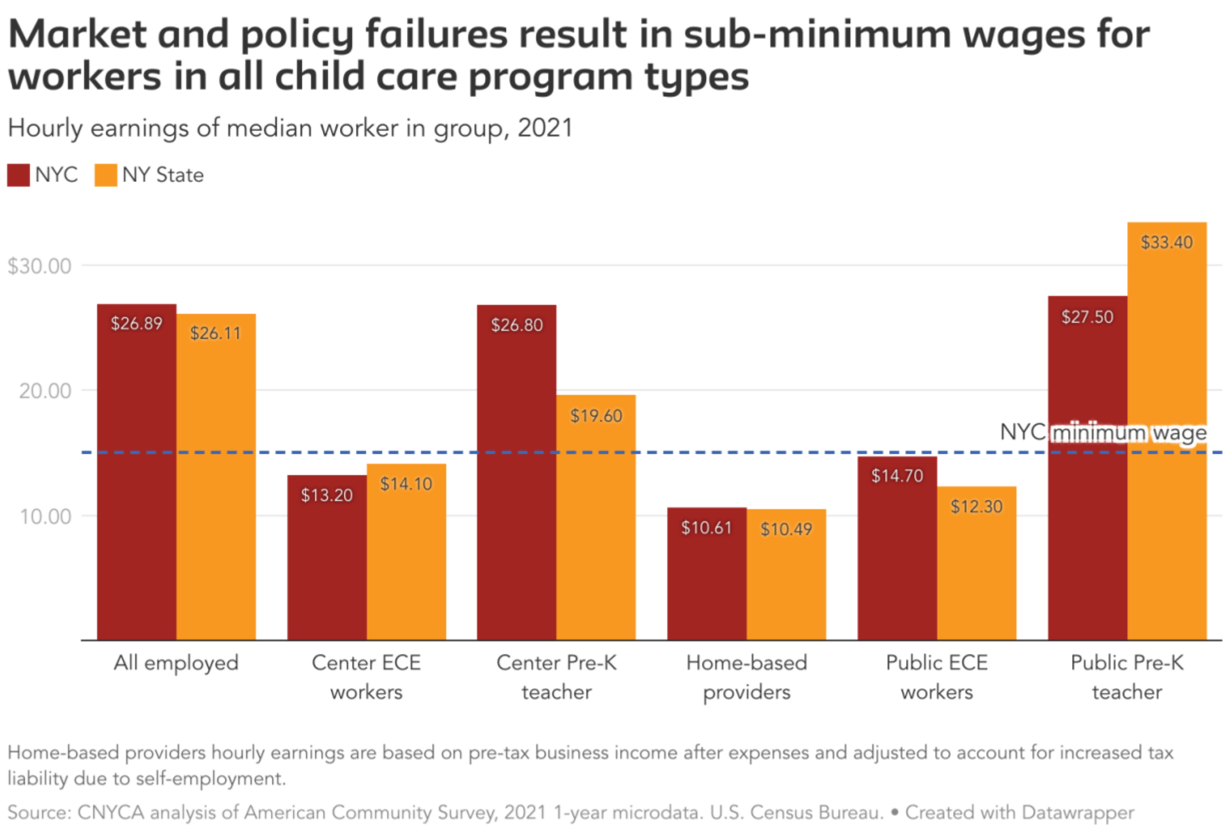


Figure 3:



Second, on the topic of ethically fulfilling the State's child care programs and policies. In 2022, approximately 13% of total child care seats in New York State are paid for with CCAP vouchers. The share of seats paid for by CCAP vouchers is expected to grow as a result of eligibility expansion and more dedicated State funds to support that expansion. The other seats are paid for by parents privately (or, in the case of New York City, paid for through a contract with the Department of Education). With the exception of high-income households, most New Yorkers cannot afford the true cost of care. As a result, child care programs charge parents what they can afford to pay, not what it costs to provide care. This "textbook example of a broken market," as U.S. Secretary of the Treasury Janet Yellen describes the child care industry has historically resulted in child care occupations in child care being some of the lowest paid in the country. This flawed system for determining price is codified and exacerbated by New York State's CCAP voucher reimbursement methodology and has resulted in child care workers and home-based providers being paid less than minimum wage in New York State. Figure 4 is an analysis I did of U.S. Census data that shows that in 2021, while the New York City minimum wage was $15 per hour, home-based providers were only earning $10.61 per hour, while center-based child care workers were earning only $13.20 per hour. These trends are consistent when looking at state-level data.

Figure 4:



It is unethical for the State to continue to use the market rate methodology to determine the value of CCAP vouchers with the knowledge that these rates result in sub-minimum wages for hard working New Yorkers to provide services on behalf of the State. Instead, New York State must develop a new methodology and permanent workforce subsidy program that guarantees a wage floor in the sector and ends the undervaluing and exploitation of the child care workforce.

Establishing a wage floor will also help to stabilize and boost supply of child care seats to meet increased demand from the expansion of the CCAP program. Figure 4 illustrates that, with the exception of Pre-K teachers in New York City, early care and education workers are not earning wages on par with the overall workforce. The early care and education industry has always grappled with high staff turnover due to low wages. Many workers have reported leaving the industry for higher wages in fast food and other far less-demanding industries. People working in child care can find better paying jobs without having to do additional training. For example, In 2021, the median wage of people with a high school diploma was $18.50 per hour in the New York City metropolitan area, which was $5 more per hour than for center-based child care workers, 80 percent of whom have a high school diploma or more. The gap between child care workers' wages and other workers' wages will only continue to widen with the implementation of the State's new minimum wage law. The State's CCAP voucher reimbursement rate must be amended to address these growing disparities.

Persistent low-pay in the field also results in child care workers being more heavily reliant on public assistance programs, which draws funds from State and local social service districts. Figures 5 and 6 provide statistics on the SNAP and Medicaid utilization rates of some workers in the child care sector.

Figure 5:

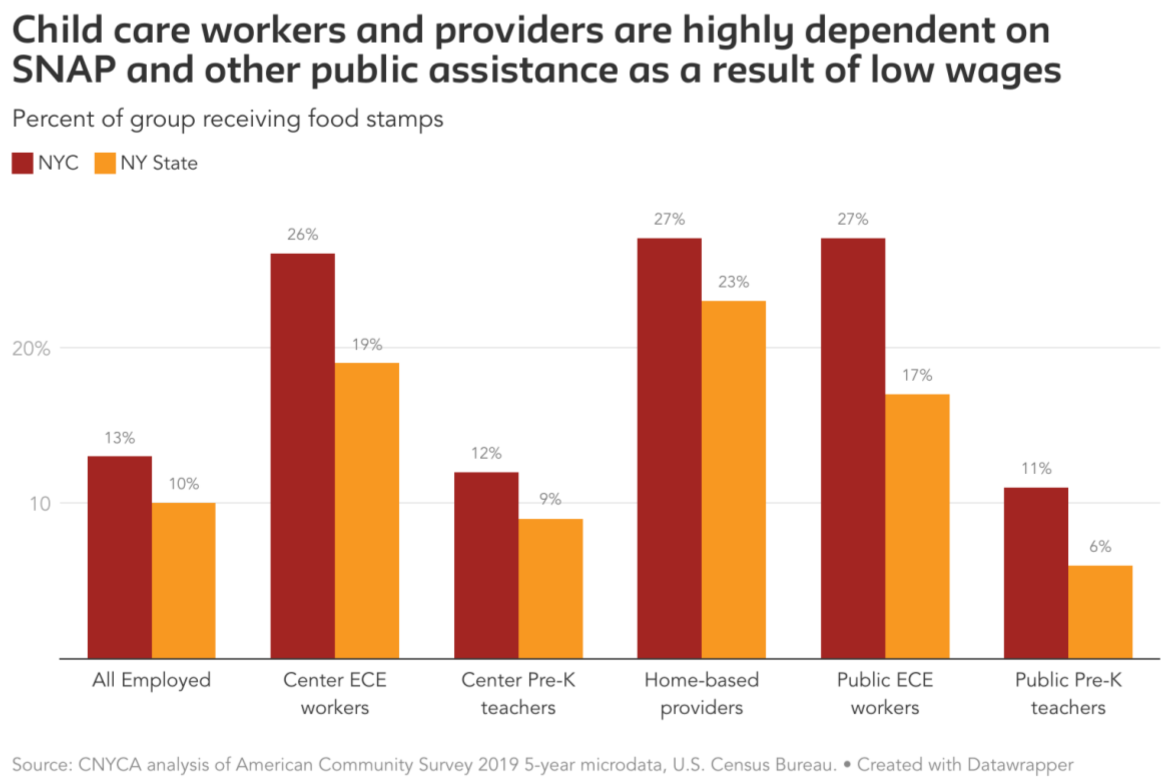


Figure 6:

Home-based providers largely rely on public health insurance programs

Percent of providers by health insurance type

Health Insurance Type ▲	NYC	NY State
Medicaid	46%	41%
Medicare / VA	7%	7%
Purchased directly	12%	12%
Spouse's employer/union	17%	15%
Uninsured	18%	25%

Source: CNYCA analysis of American Community Survey 2019 5-Year Data.
• Created with Datawrapper

FY2024-25 budget priorities to solve these crises

Last year, Governor Hochul proposed dedicating $389 million in unspent federal funds to another business stabilization grant program for child care programs. The size of that grant program was not dictated by need, but by the available unspent federal pandemic funds in the State's coffers. The Legislature heard the demand from providers, parents and researchers like myself and established a $500 million workforce compensation fund last year, which OCFS has worked to distribute directly to the workforce (through their employers). In this year's executive budget, Governor Hochul proposes maintaining the expansion of the CCAP program by dedicating more State and TANF funds to an expansion that was made possible through federal pandemic assistance funds. This is a positive and important step as we move into a policy arena with fewer federal funds than we've had access to in recent years. But maintaining the expansion will only work if a permanent solution to the supply crisis, rooted in low-pay in the child care sector, is addressed this year. This is not something that can wait. Over the past four years, child care programs that have remained open and served the CCAP program have been able to do so because they've had access to stabilization grants, child care desert grants, and workforce compensation funds from OCFS. These funds have been used to cover revenue shortfalls in the sector and boost wages to retain workers. The State must continue to provide a subsidy to the sector and begin making steps toward long-term solutions to stabilize and increase the supply of child care workers and programs.

The State Legislature should pass legislation this session to begin the process of developing a new methodology for CCAP voucher reimbursement. A bill introduced by Senator Kennedy and Assemblymember Clark on this topic (S.3355/A.1885 during the 2023-24 legislative session) can easily be updated, reintroduced and passed this session. Developing an alternative methodology, not based on a flawed market but on the cost of care – including competitive wages – will put New York State on a path to guaranteeing that there is sufficient supply of child care seats to meet the demand and need of the families the CCAP program serves. Once a new methodology is established, the CCAP budget will need to continue to grow. It is critical that the State develop the new methodology, so that the State can start planning and preparing to secure the revenue needed for future CCAP budgets.

Establishing a new methodology requires the State to engage in a multi-year approval process with the federal government. Therefore, while the alternative methodology is a critical component of a long-term strategy to resolve the supply crisis in child care, it will not resolve the crisis we face this year. It is important, then, that the Legislature continue the workforce compensation fund included in last year's budget and make it clear to the child care sector that this program will be a permanent feature of the State budget until a new methodology with a wage floor has been implemented. OCFS has already built the infrastructure to deliver a wage subsidy to child care workers through this workforce compensation fund. There were flaws in the system last year that resulted in many home-based providers and workers not being able to access the program, but I am confident that OCFS can remedy those issues, especially if the program becomes a permanent feature of their services that they can invest time and resources into improving and integrate into other systems, like the ASPIRE registry.

This size of this workforce compensation fund must not be based on a random pool of money found by the Executive. It should be funded to solve the problem. Last year, I argued for a $12,500 wage subsidy per worker and estimated that $1 billion would be need to enact this program in New York State. Why $12,500? A wage supplement of this size would effectively eliminate much of the disparities in income I described above, thereby incentivizing people to continue working in the early care and education industry and allow for stabilization of the existing supply of child care seats in the state. I estimated that the wage supplement would increase the median pay of home-based providers to $18.79 per hour – still far lower than what pay should be in this sector, but sufficient to guarantee home-based providers are no longer making less than minimum wage (which increased this month to $16 per hour in New York City and its suburbs and $15 per hour in the rest of the state).[1] Without a sufficiently-sized wage subsidy, a small bonus – like the one provided through the FY2023-24 workforce compensation fund – will not have the impact its intended to have. The workforce compensation fund should eliminate sub-minimum wages in the industry and encourage workers, who can easily find higher wages in other sectors without having to do additional training, to continue working in child care.

Together, these initiatives can boost income for home-based child care providers and wages for early childhood educators, which is the only way the State will be able to meet the expansions of the CCAP program legislated in the past two years. Increasing the pay to child care workers across all settings will improve quality, by reducing turnover of staff. It will also increase the possibility for providers to increase their flexibility to meet the needs of working families. All of this will, in turn, benefit all New Yorkers, by establishing a child care sector that can support increased labor force participation, especially of working parents. Furthermore, the State is capable of investing more in early childhood education this year. A January 2024 report published by my colleagues Dr. James Parrott and Dr. George Sweeting highlights ample State budget reserves, including the $13.3 billion for "economic uncertainties," which do not have restrictions like the "rainy day" reserves.[2] Insufficient supply of child care, which is the backbone of our economy, is an economic uncertainty that must be addressed this year.

[1] Lauren Melodia, "Testimony before the Joint Legislative Hearing Committee on 2023-24 Executive Budget Proposal: Human Services," (Center for NYC Affairs, February 13, 2023), https://static1.squarespace.com/static/53ee4f0be4b015b9c3690d84/t/64dcd9034321e51b52715cba/1692195076752/LMelodia+human+services+budget+testimony+2023.pdf.

[2] James Parrott and George Sweeting, "New York's 2024 Economic and Budget Outlook: Post-Pandemic Reckoning for the City and the State," (Center for NYC Affairs, January 11, 2024), https://www.centernyc.org/reports-briefs/new-yorks-2024-economic-and-budget-outlook-post-pandemic-reckoning-for-the-city-and-the-state.