

SeaChange

Research Note

SEPTEMBER 23, 2022

EARLY CHILDHOOD EDUCATION: HOW MUCH MORE CAN NONPROFITS ENDURE?

Despite the [efforts](#) of the Mayor Eric Adams administration to address the backlog of unregistered contracts, nonprofits continue to face acute delays in contract registration and payment in select areas. Of particular concern is early childhood education (“ECE”), an area in which delays in payment have pushed nonprofits to the point of financial distress. Based on data available through [Checkbook NYC](#), we estimate that nonprofits providing ECE services face a cumulative cash deficit (or funding gap) of over \$464 million for work they performed on behalf of New York City in fiscal year 2022. This represents more than 37% of the total work that was completed during the year and corroborates what we have learned anecdotally: the system is at its breaking point.

Data available from Checkbook NYC indicates that during FY2022:

- 679 unique nonprofit organizations provided ECE services under 1,053 contracts¹ with the New York City Department of Education;²
- By the end of the FY2022 contract period (7/1/2022), these 679 organizations had only received \$798 million from the City compared to the estimated spending of \$1.3 billion,³ resulting in a cumulative cash flow deficit of \$464 million (see [Table A](#));

- This \$464 million gap reflects both delays in reimbursement for expenses which will, eventually, be reimbursed and those which the city may never reimburse because the contracts contain onerous provisions with respect to attendance-based payments, limits on indirect expenses, and a lack of flexibility to move contract dollars between categories in response to real-world conditions;
- For some individual organizations, the deficit is as large as \$35 million. 19 organizations show a deficit of \$5 million or more (see [Table B](#)).

Given the largely fixed nature of the contract expenses and the limited ability of even larger nonprofits to incur financial losses (let alone smaller, community-based organizations), our analysis suggests that many organizations will not be able to continue ECE work without a substantial risk of insolvency. Unless they quickly raise more philanthropy or borrow funds – both of which seem unlikely – or the city promptly improves the amount and timeliness of its payments, nonprofits may be forced to “give back” the contracts to avoid financial ruin despite a mission-driven desire to continue the work.

¹ See [here](#) for a list of all contracts. Here is a [link](#) to the underlying analysis.

² Despite the City’s important steps towards transparency in contracting, [PASSPort Public](#) does not include any information about these contracts and Checkbook NYC did not allow us to identify all the relevant ECE contracts without confirmation by ECE providers. The City should commit to a timetable by which to make information on all contracts available through PASSPort Public.

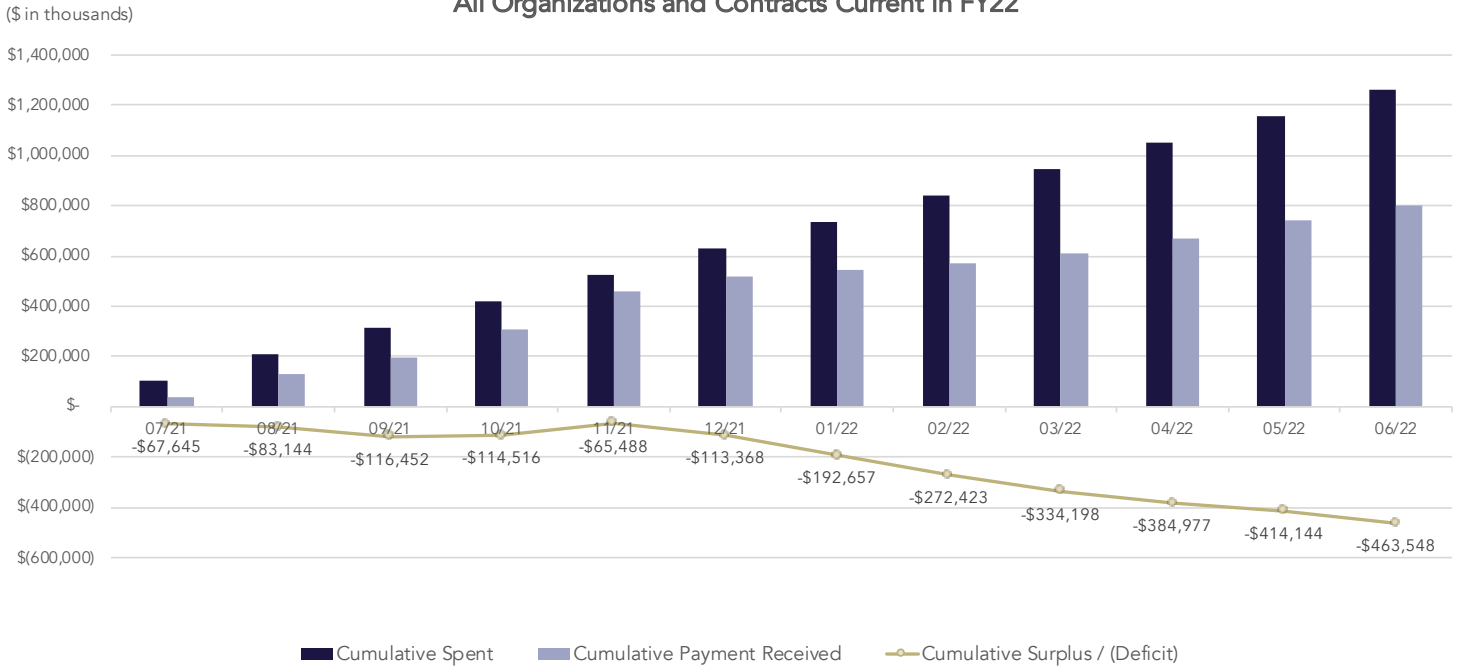
³ The estimate of FY2022 pending of \$1.3 billion assumes that nonprofits spend the total contracted amount over the contract term. While this may not be accurate for any given contract, we believe it is accurate in total.

TABLE A

ALL CONTRACTS CURRENT IN FY22

AGGREGATE CONTRACT SPENDING, PAYMENT, AND CUMULATIVE SURPLUS OR DEFICIT

Cumulative Spend, Payment Received, and Surplus / Deficit:
All Organizations and Contracts Current in FY22



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