F I S C A L   I M P A C T   R E P O R T

SPONSOR Dow/ Roybal Caballero/ Herrera/ Pratt/Cadena **ORIGINAL DATE** 2/6/19 **LAST UPDATED** **HB** 399

SHORT TITLE Child Care Assistance Copay Waivers **SB**

ANALYST Klundt

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		$2,200.0	$2,200.0	$4,400.0	Recurring	General

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Children, Youth and Families Department (CYFD)

SUMMARY

House Bill 399 appropriates amends existing statute to require Children, Youth and Families Department to waive any child care assistance copayment requirements for families whose children are three or four years of age and are enrolled in a child care assistance program that CYFD has rated, in accordance with CYFD rules, as a "star four" or "star five" child care program.

FISCAL IMPLICATIONS

There is no appropriation contained in this bill. The anticipated fiscal impact to CYFD to meet the requirements of this bill is $2.2 million annually. CYFD reported the fiscal impact of this bill cannot be absorbed through existing resources.

SIGNIFICANT ISSUES

The Childcare Assistance program is a subsidy program for families with children between the ages of 3 weeks and 13 years whose families make less than 200 percent of the federal poverty level and who work or attend training and education programs. Childcare is not an entitlement program and is funded through a combination of federal block grants (Childcare and

Development Fund, and Temporary Assistance for Needy Families) and state appropriations (general fund). Historically, the largest source of funding for childcare assistance was from the federal Childcare and Development Fund (CCDF), however, in FY19, the general fund has become the largest source of funding.

CYFD reported while ensuring preschool children are able to attend and remain in a high-quality child care setting allows for continuity of care and education and supports parental choice of choosing a child care setting that provides preschool education based on the state's FOCUS Quality Rating and Improvement System (modeled after New Mexico PreK program), and waiving co-pays will ensure that more children benefit from high-quality preschool programming, there is a significant fiscal impact attached to this bill.

Waiving child care assistance copayments for the families identified in this bill could affect CYFD's ability to fully support the subsidies to which it is already committed. Under regulation, CYFD "pays a differential rate according to the license or registration status of the provider, national accreditation status of the provider if applicable, and star level status of the provider if applicable" (8.15.2.17(G) NMAC); and pays "a differential rate per child per month for full time care above the base reimbursement rate to providers achieving higher Star levels by meeting FOCUS essential elements of quality…." (8.15.2.17(I) NMAC). CYFD already pays higher rates for providers achieving higher star levels; waiving the copayment for "star four" and "star five" programs for families with children ages three or four, will result in CYFD being responsible for additional costs that would otherwise be shared with the families.

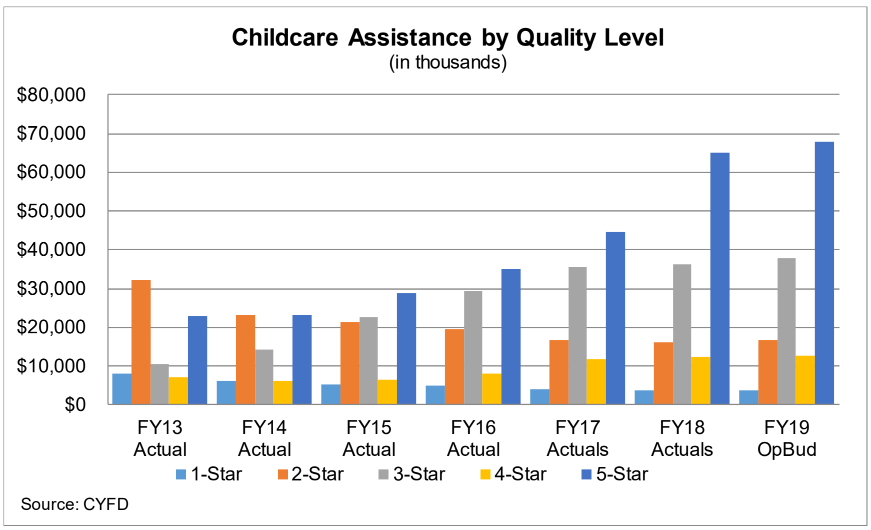
OTHER SUBSTANTIVE ISSUES

Since FY12, enrollment in childcare has fallen by 7 percent while cost per child has risen by 76 percent. Administered by the Children, Youth and Families Department (CYFD), in FY18 childcare assistance average monthly enrollment was 20,488, an increase of 9.5 percent over FY17. The average monthly cost per child was $550, $53 more per child per month than FY17. At $550 per child per month, it will cost an additional $6 million for every one thousand additional children served. Total direct spending for childcare assistance in FY18 reached $135.2 million, nearly $19 million above anticipated spending in CYFD's FY18 operating budget. In FY19, childcare assistance received an additional $22 million from the general fund and $3 million from TANF.

Increased provider rates for the highest levels of quality care contributed to increased spending as more providers qualify for 5-STAR reimbursements. Childcare providers can qualify as a 5-STAR provider by either meeting quality standards in the state's tiered rating quality improvement system, Focus, or through an approved national accrediting body. Periodically, the state recertifies childcare providers to ensure they are meeting Focus standards, while accredited providers are endorsed by their accrediting body. The newest childcare block grant funding framework released in early 2018 will provide the state an estimated additional $18 million in discretionary funds, helping with projected increased costs in FY20. Aside from income eligibility requirements, parents must also work or go to school. The vast majority of qualified parents use childcare assistance to support their employment.

CYFD projects continued growth in enrollment and costs. CYFD continues moving forward in its implementation of Focus, New Mexico's third-generation tiered quality rating system. CYFD reported in FY18 more childcare providers are moving into the highest levels of quality rating, but nonetheless fell slightly below performance targets for the fiscal year. In FY18, 60 percent of children attended "high quality," 3-, 4-, and 5-STAR programs. The agency also reported rural providers are struggling to move into the state's newest quality rating system, Focus, and there is no timeline for transition of providers remaining in the legacy system (Aim High). Additional technical assistance may be needed to assist providers remaining in the legacy system to increase quality standards and to transition from Aim High to Focus.

Four-year-old childcare enrollment increased from FY16 to FY17 from 1,972 to just fewer than 2,500, and remained relatively stable in FY18. Additionally, the number of children enrolled nine or more months increased from 34 percent in FY14 to 49 percent in FY17, however there was a drop in FY18 to 47 percent. The Legislature has implemented new reporting requirements. In the 2018 legislative session, House Bill 193 enacted the Early Childhood Care Accountability Act (ECCAA) in the Children's Code, establishing standards for licensure and registration and puting a number of data collection and reporting requirements into place, including requiring a report of these data to the Legislature beginning in December of 2019.



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