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

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| **SPONSOR** | Gallegos, DY/Bash/ Ferrary/Trujillo/ Thompson | **ORIGINAL DATE** **LAST UPDATED** | 1/27/19 | **HB** | 160 |
| **SHORT TITLE** | Requirements For Child Care Assistance | | | **SB** | |
| | | | | **ANALYST** | Klundt |

## APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|
| **FY19** | **FY20** | | |
| | $40,000.0 | Recurring | General |

(Parenthesis ( ) Indicate Expenditure Decreases)

## ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY19 | FY20 | FY21 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|---|---|---|
| **Total** | | Significant, possibly greater than $1,000.0 | Significant, possibly greater than $1,000.0 | Significant, possibly greater than $2,000.0 | Recurring | General |

(Parenthesis ( ) Indicate Expenditure Decreases)

## SOURCES OF INFORMATION
LFC Files

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

## SUMMARY

Synopsis of Bill

House Bill 160 (HB 160) enacts a new section of the Early Childhood Care Accountability Act, establishing eligibility and copayment guidelines as follows:

- Makes child care assistance available for eligible families applying for *initial* certification with a monthly gross household income no greater than 200 percent of the current federal poverty level
- Makes care assistance made available for eligible families applying for *recertification*

with a gross household income greater than 200 percent of the current federal poverty level but less than 300 percent of the current federal poverty level.

- For families with a gross household income that does not exceed 100 percent of the current federal poverty level, this bill would eliminate the families' requirement to pay any cost-sharing to receive child care assistance.

The bill additionally sets cost-sharing limits for families with incomes above 100 percent of the current federal poverty level to at no greater than 7 percent of gross monthly household income; and for those above 200 percent of the current federal poverty level at no greater than 14 percent of the gross monthly household income.

Finally, the bill appropriates $40 million from the general fund to CYFD for expenditure in FY20 for this purpose.

**FISCAL IMPLICATIONS**

The appropriation of $40 million contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY20 shall revert to the general fund.

This appropriation contained in this bill is not contained in the executive or LFC budget recommendations for FY20.

The operating budget impact to CYFD for the changes this bill makes to cost-sharing is estimated at between $5 million and $7 million. CYFD is unable to calculate the fiscal impact for the expansion beyond 200 percent of federal poverty level. CYFD's current monthly subsidy expenditure level is approximately $11 thousand, serving between 19,000 and 20,000 children. The Early Childhood Services Division budget is 37.8 percent general fund; 24.1 percent TANF transfer; 37.4 percent federal fund; and 0.7 percent other state fund. On average, every additional 1,000 children served each monthly requires an additional $6 million annually.

Additionally, CYFD reported this bill may require additional FTE to properly manage the increased caseload.

**SIGNIFICANT ISSUES**

Because the federal child care assistance development block grants prohibit the use of federal funds for child care assistance to families whose income exceeds 85 percent of the state median income (family income and family size, currently equal to 191 percent of the federal poverty level), any expansion of the service population beyond 191 percent of the federal poverty level cannot use federal funding. Federal reporting therefore will not take into account children served above the 85 percent state median income, and will create a separate state child care program. Additionally, a new tracking and reporting system will need to be put into place to ensure compliance with the federal child care assistance development block grant.

The operating budget impact to CYFD for the changes this bill makes to cost-sharing is estimated at between $5 million and $7 million. While CYFD is unable to calculate the fiscal impact for the expansion beyond 200 percent of federal poverty level, CYFD's current monthly subsidy expenditure level is approximately $11 million. The Early Childhood Services Program budget is 37.8 percent state general fund; 24.1 percent TANF transfer; 37.4 percent federal fund; and 0.7 percent other state fund.

CYFD reported this bill conflicts with 8.15.2.9 NMAC, which sets forth the priorities for assistance, and 8.15.2.13 NMAC, which sets forth the responsibilities of clients receiving child care assistance.

The current priorities for assistance are as follows: (A) Priority one: clients receiving TANF benefits, (B) Priority one A: reserved, (C) Priority one B: income eligible families whose income is at or below 100 percent of the federal poverty level (prioritizing children with special needs, homeless families, and teen parents) with a waiting list if the number of eligible clients exceeds budget availability, (D) Priority two: Families transitioning off of TANF, (E) Priority three: reserved, (F) Priority four: income eligible families whose income is above 100 percent of the federal poverty level but at or below 200 percent of the federal poverty level, subject to the availability of funds, prioritizing children with special needs, disabilities, teen parents, and homeless families (with CYFD reserving the right to expand the eligibility requirement up to 200 percent of the federal poverty level based on budget availability, and allowing CYFD to maintain a waiting list).

Currently, as set forth in the client responsibilities section, copayments are paid by all clients receiving child care assistance, except for CPS child care, at-risk child care, and qualified grandparents or legal guardians as defined in Paragraph (2) of Subsection C of 8.15.2.11 NMAC. Copayments are based upon the size and income of the household. Copayments for each additional child are determined at one half of the copayment for the previous child. Copayments for children in part-time care are determined based upon the block of time that the child is in care.

Finally, the agency stated establishing child care assistance eligibility requirements in statute eliminates CYFD's ability to implement emergency rule making should funding prove insufficient to support the child care assistance program requirements established in statute. The bill does not contain a mechanism that will guarantee available funding in the event that the service population outstrips available monies.

**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.

Despite significant increased investments in quality initiatives, evidence linking participation in childcare with long-term impacts on educational outcomes is lacking. There is some evidence that select childcare facilities perform on par with high performing prekindergarten facilities. There is also some evidence that childcare assistance has a short-term impact on improving school readiness. LFC staff have found small, short-term effects for Aim High (the legacy tiered quality rating improvement system), and UNM's Cradle to Career Policy Institute (CCPI) found similar short-term impacts. However, several LFC studies, along with the recent CCPI study, found no impact of childcare participation on $3^{rd}$ grade scores, which is consistent with national research on fade out effects of some early childhood programs. While some studies show promising short-term educational gains, there is no evidence to conclude participation in New Mexico childcare has a long-term positive impact on educational outcomes. However, childcare may have other benefits for kids and parents, such as contributing to economic stability.

**TECHNICAL ISSUES**

The agency believes the definition of "copayment" to be inconsistent in this bill. The bill begins with the term "copayment" but later uses the term "cost-sharing," which appears to be another term for "copayment." However, no definition section is provides.

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