Report
to
The LEGISLATIVE FINANCE COMMITTEE

Department of Human Services and
Office of Workforce Training and Development
Review of the New Mexico Works program and
Workforce Development System Integration
July 12, 2006

Report # 06-45

LEGISLATIVE FINANCE COMMITTEE

Representative Luciano “Lucky” Varela, Chairman
Senator Joseph A. Fidel, Vice Chairman
Senator Sue Wilson Beffort
Senator Pete Campos
Senator Joseph J. Carraro
Senator Phil A. Griego
Senator Timothy Z. Jennings
Representative Rhonda S. King
Representative Brian K. Moore
Senator Leonard Lee Rawson
Representative Henry “Kiki” Saavedra
Representative Nick L. Salazar
Senator John Arthur Smith
Representative Sandra L. Townsend
Representative Jeannette O. Wallace
Representative Donald L. Whitaker

DIRECTOR

David Abbey

DEPUTY DIRECTOR FOR PERFORMANCE AUDITS

G. Christine Chavez, CPA

PERFORMANCE AUDIT REVIEW TEAM

Robert Behrendt, Ed.D.
Susan Fleischmann, CPA
David, Goodrich, CISA, CIA
Bobby Griego
George McGeorge
Consuelo Mondragon
J. Scott Roybal
Charles Sallee
Aurora B. Sánchez, CISA
Usha Shannon

State of New Mexico
LEGISLATIVE FINANCE COMMITTEE

325 Don Gaspar, Suite 101 • Santa Fe, New Mexico 87501
Phone: (505) 986-4550 • Fax: (505) 986-4545

DAVID ABBEY
DIRECTOR

July 12, 2006

Pamela S. Hyde, Secretary
Human Services Department
2009 South Pacheco, Pollon Plaza
Santa Fe, New Mexico 87504

Len Malry, Interim Executive Director
Office of Workforce Training and Development
1596 Pacheco Street – Suite 201
Santa Fe, New Mexico 87505

Dorian Dodson, Secretary Designate
Children, Youth and Families Department
1120 Paseo de Peralta
Santa Fe, New Mexico 87501

Dear Secretary Hyde, Mr. Malry and Secretary Dodson,

On behalf of the Legislative Finance Committee (Committee), I am please to transmit the Review of the New Mexico Works Program and Workforce Development System Integration at the Department of Human Services (department) and Office of Workforce Training and Development (OWTD).

The review team evaluated the effectiveness of programs aimed at transitioning families from welfare to work; efforts to integrate services, including child care, in the workforce system; capacity of OWTD to plan and oversee workforce services; and implementation status of the *November 13, 2004 Review of the Workforce Investment Act.* The report will be presented to the Committee on July 12, 2006. An exit conference was conducted on June 29, 2006 to discuss the contents of the report with you and your respective staff. The Committee expects a corrective action plan 30 days from the the public hearing.

I believe this report addresses issues the Committee asked us to review and hope your agencies benefit from our efforts. We very much appreciate the cooperation and assistance we received from you and your staff.

Sincerely,

David Abbey
Director

DA:CS/yr

Table of Contents

The review assessed state programs aimed at assisting needy families transition from welfare dependency to self-sufficiency, and progress made to coordinate employment and training programs.

The purpose of the NM Works program is to increase family income.

The Department of Human Services (department) provides time-limited cash assistance to needy families with children through the Temporary Assistance for Needy Families (TANF) program, also called the New Mexico Works program (NM Works). The purpose of the program is to increase family income through employment and child support (Section 27-2B-2 (F) NMSA 1978). In FY06, the Legislature allocated over $158 million in state and federal funds through multiple agencies for cash assistance and a range of support services to accomplish this purpose.

Most TANF recipients work, but remain on welfare.

As part of the state's workforce development reforms, the department, in partnership with the Office of Workforce Training and Development (OWTD), has started to shift NM Works employment and training service contracts to local workforce boards and one-stop centers. OWTD was created to increase coordination and accountability of the state's employment and training services, and local workforce boards.

Overall, New Mexico's welfare and workforce development systems have made progress implementing legislative reforms. Most families on welfare are working and local one-stop career centers have been established in four communities. However, more improvements are needed to fulfill statutory goals and ensure New Mexico families, workers and employers can compete in the skill-driven global economy.

Significant Findings.

The department lacks outcome measures to assess families' employment, earnings and use of child care after leaving TANF.

New Mexico Works families lack sufficient access to effective and comprehensive workforce development services, including child care, through one-stop centers. Existing data indicate most TANF recipients work; but remain on welfare, have limited advancement opportunities, and on average, earn poverty wages.

- The department lacks outcome measures to regularly assess families' employment, earnings and use of child care after leaving TANF.
- Lack of agreement over service delivery plans has hampered integration of NM Works into the one-stop centers. Transferring funding through OWTD creates administrative inefficiencies. However, the NM Works program should still co-locate at one-stop centers statewide, but funding does not need to go through OWTD.

Only about 32 percent of families in the NM Works program use child care subsidies.

Neither the department nor CYFD regularly examine the use of child care by NM Works families as they move off welfare and into work.

Child care eligibility policies inadvertently discourage working families, including those formerly on TANF, from increasing their work effort.

New Mexico lags behind nationally in helping families obtain child support before they leave TANF.

- Families participating in NM Works or other job training programs could benefit from closer coordination and co-location of the Children, Youth and Families Department's (CYFD) child care program at the one-stop centers. Legislative Finance Committee (Committee) staff estimates only about 32 percent of families in the NM Works program use child care subsidies. Neither the department nor CYFD regularly examine the use of child care by NM Works families as they move off welfare and into work.

New Mexico Works policies need adjustment to help families transition off welfare into self-sustaining employment. State law provides that welfare should be regarded as a work support, and that needy families have access to child care, child support, and services to ameliorate family issues, such as domestic violence and substance abuse, that interfere with work and self-sufficiency.

- *NM Works earnings disregard policies are complicated and may not be helping families as intended.* The "excess hours worked" disregard policy allows families to keep cash assistance and income earned from working hours in excess of part-time employment.
- *Child care eligibility policies inadvertently discourage working families, including those formerly on TANF, from increasing their work effort.* Some families may not increase their work effort if marginal increased income above 150 percent of the federal poverty level results in significant new child care costs.
- *TANF policies limit the Child Support program's effectiveness at helping increase families' income.* New Mexico lags behind nationally in helping families obtain child support before they leave TANF. Recent federal program changes provide an opportunity to increase support collected and distributed to needy families.
- *More information is needed to determine the effectiveness of domestic violence and substance abuse programs at helping families alleviate these barriers and become independent of TANF.* In addition, mental health issues account for the most identified barrier assessed by the department, yet state law does not allow treatment as an alternative or secondary work activity.
- *Recent federal reauthorization of TANF may adversely affect the NM Works program and put the state at-risk of losing $5 million or more in federal funding.*

Lack of OWTD authority and decentralized administration may impede further progress to meet the needs of New Mexico's businesses and job seekers. The State and OWTD have implemented 91 percent of the recommendations from the 2003 Committee report on implementation of the federal Workforce Investment Act (WIA). OWTD has spent much of its first two years improving past WIA program deficiencies. However, the state's workforce development system remains fragmented and dilutes scarce resources across multiple layers of administrative entities.

Local boards and OWTD authority and capacity to create one-stop career centers are limited, without significant intervention from the Governor.

- *The Legislature and Executive branch may need to consolidate administrative authority of most employment and training programs into a new single department to enhance accountability.* Local boards and OWTD authority and capacity to create one-stop career centers and integrate services are limited, without significant intervention from the Governor.
- *OWTD has struggled to broaden its coordination responsibilities to all employment training services and has not developed a comprehensive performance-based accountability system as required by state law.*

OWTD has struggled to broaden its coordination responsibilities to all employment training services.

Significant Recommendations.

- The Legislature should require the department to report post-TANF outcome measures, including families' use of child care.
- The department should require all TANF employment and training services contractors to provide services through one-stop career centers statewide. CYFD should co-locate child care eligibility workers at a minimum of three one-stops by the end of FY07.
- The Legislature should consider amending state law to replace the excess hours worked disregard with a post-TANF job retention bonus.
- The Legislature should consider maintaining child care eligibility thresholds at 155 percent FPL, but target any future expansion funding to raise the exit level eligibility threshold.
- The Legislature should consider amending state law to authorize the department to increase the amount of child support going to families on TANF from $50 per month to $100 for families with one child and $200 for families with two or more children.
- The department should collect data to show outcomes for domestic violence and substance abuse services provided to TANF families.
- The Legislature should consider amending state law to add mental health treatment services to the list of work activities.
- The Legislature should consider creating a separate state two-parent cash assistance program. This change will eliminate potential federal penalties and does not require new general fund spending.
- The Legislature should consider an interim study during 2007 of options to consolidate workforce development programs into a single new department and how services should be delivered to job seekers and employers.
- OWTD should require all partner agencies to submit performance data on a quarterly basis and provide a summary report to the State Workforce Board for review.

Background.

Federal Welfare Reform. In 1996, the federal government ended the 60-year federal guarantee of cash assistance to poor families by replacing the Aid to Families with Dependent Children (AFDC) open-ended cash assistance entitlement program with the Temporary Assistance to Needy Families (TANF) block grant program. The legislation establishes a 5-year lifetime limit on the length of time a person can receive benefits; places an added emphasis on work by requiring recipients to meet certain work requirements within two years; and allows for reductions or elimination (sanctions) to cash benefits for recipient noncompliance. The TANF program provides states with broad flexibility to run cash assistance programs, including adopting stricter time limits and work requirements, and use federal funds to help non-TANF poor families, reduce teen pregnancy, and support two-parent families.

New Mexico Welfare Reform. The New Mexico Legislature responded to these federal changes by passing the New Mexico Works Act in 1998. New Mexico's welfare reforms largely mirror federal law, such as limiting assistance to a maximum of five years, except under certain hardship conditions and requiring clients to engage in work activities after two years of assistance, except under certain conditions.

The department provides time-limited cash assistance to needy families with children through the TANF program, also called the New Mexico Works program. The purpose of the New Mexico Works program is to increase family income through employment and child support (Section 27-2B-2F NMSA 1978).

In FY06, the State allocated over $158 million in state and federal funds through multiple agencies for cash assistance and a range of support services to assist TANF recipients obtain and keep employment that is sufficient to sustain their families, eliminate barriers to work, and strengthen families' support for their children. Of this amount about $122 million are federal TANF funds and about $36 million are state funds, also called "maintenance of effort" (MOE). States may use TANF to fund a wide variety of work and poverty reduction programs and services, in addition basic cash assistance. The New Mexico Works employment and training portion of the program receives about $11.2 million in federal TANF, and the child care program administered by CYFD receives about $32.2 million in federal TANF, and $2.9 in state MOE. The state must also meet federal work participation rates by ensuring that a minimum of 50 percent of adult clients are engaged in certain work activities or face a financial penalty equal to five percent of its federal grant. Recent Congressional changes may make this "participation rate" more difficult to reach for states and clients.

TANF Snapshot

Caseload
- Recipients: 41,597
  63.1% children
  36.9% adults
- Cases (Families):
  March '99 – 25,017
  March '06 – 16,711

Work Activity Placements (March '06)
- Job Search – 409
- Education/Training – 171
- Work Readiness – 450
- Non-pay Work – 510

Employment (FY06)
- Entered Employment: 3,317
- Avg. Wage: $6.67 per Hour
- Employed at $7.50+ per Hour: 21.6%

Source: HSD

Workforce Development. In 1998, Congress adopted reforms aimed at creating a demand-driven and integrated workforce development system that helps business access highly skilled workers. A 2003 LFC performance audit of the state's implementation of these reforms contained in the Workforce Investment Act of 1998 (WIA) identified the need for a single coordinating agency, among other changes, to better ensure effective implementation. In 2004, the Governor created the Office of Workforce Training and Development (OWTD) to facilitate increased coordination, integration and accountability of the state's workforce development system. OWTD administers WIA, oversees the state's four local workforce boards, coordinates with agencies' employment and training programs to expand one-stop centers and monitors performance of the workforce system. The state's workforce development system consists of 17 state and federal programs with funding totaling about $310 million. The Legislature established OWTD in statute in 2005. The Office is subject to the New Mexico Sunset Act and is subject to termination July 1, 2011.

WIA Program FY05

- *Funding* - $18.1 million
- *Clients Served* - 8,409
- *Entered Employment* - 1,270
- *Adults Retaining Employment* - 82.1%
- *Avg. Cost per Client* - $1,872 (FY04)

Source: OWTD

Under WIA, local workforce development boards are charged with carrying out regional planning and contracting for delivery of employment and training services through "one-stop" workforce centers. The one-stop centers are supposed to provide a single access point for customers by co-locating multiple programs. In addition, local workforce boards administer WIA training funds, approve training programs that are directly linked to occupations in demand by local businesses, and monitor regional workforce system performance.

Welfare and Workforce Integration. Over the past year, the Human Services Department has started to transition its NM Works contracts to OWTD and local workforce boards to provide TANF clients with expanded access to WIA and other one-stop services.

Review Objectives.

- Determine the effectiveness and efficiency of the state's effort to transition clients from welfare to work, including efforts to remove barriers for hard-to-serve clients.
- Review the state's efforts to integrate TANF clients and services, including child care assistance, in the larger workforce development system.
- Assess the capacity of local workforce development boards to plan and oversee the delivery of workforce services and training that meets the needs of employers, workers and local economies.
- Review the implementation status of the Committee report *Review of New Mexico's implementation of the Workforce Investment Act of 1998 – November 13, 2004*.

Scope and Methodology.

- State and federal data from 1994-2006.
- State and federal statutes, laws, administrative rules and regulations governing TANF, workforce development and child care assistance.
- LFC Committee files and reports, including the *Review of New Mexico's Implementation of the Federal Workforce Investment Act of 1998 - November 13, 2003.*
- Agency performance measures program budgets, 1999-2007.

Procedures.

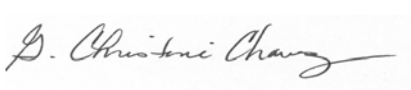
- Review and analyze statutes, laws, and administrative rules.
- Conduct field visits to department Income Support Division offices, local one-stop workforce centers, and NM Works contractor offices.
- Interview staff from the department, OWTD, CYFD, state and local workforce board members and staff, NM Works contractor staff, and TANF applicants and recipients.
- Conduct research on best practices and other states' programs.
- Assess implementation of recommendations from November 13, 2003 report.
- Review contracts, performance measures, data, budgets, state plans, and reports provided by the department, OWTD, and CYFD.

Review Authority. The Committee has authority under Section 2-5-3 NMSA 1978 to examine laws governing the finances and operations of departments, agencies, and institutions of New Mexico and all of its political sub-divisions, the effect of laws on the proper functioning of these government units, and the policies and costs of government. Pursuant to its statutory authority, the Committee may conduct performance reviews and inquiries into specific transactions affecting the operating policies and costs of governmental units and their compliance with state law.

Review Team.
G. Christine Chavez, Deputy Director for Performance Audit
Charles Sallee, Performance Auditor
Scott Roybal, Performance Auditor
Consuelo Mondragon, Performance Auditor

Exit Conference. The contents of this report were discussed with Secretary Pamela Hyde, Deputy Secretary Katie Falls, and staff Human Services Department; Reese Fullerton, Executive Director, Len Malry, Interim Executive Director, and staff, Office of Workforce Training and Development; and Secretary Designate Dorian Dodson and staff, Children, Youth and Families Department on June 29, 2006. The contents of this report were discussed with Terri Cole, Chair, State Workforce Development Board on June 28, 2006.

Report Distribution. This report is intended for the information of the Office of the Governor, Human Services Department, Office of Workforce Training and Development, Children, Youth and Families Department, the Office of the State Auditor, and the Legislative Finance Committee. This restriction is not intended to limit distribution of this report which is a matter of public record.



G. Christine Chavez
Deputy Director for Performance Audit

NEW MEXICO WORKS FAMILIES LACK SUFFICIENT ACCESS TO EFFECTIVE AND COMPREHENSIVE WORKFORCE DEVELOPMENT SERVICES, INCLUDING CHILD CARE, THROUGH ONE-STOP CENTERS.

<u>The department's "work-first" program model ensures Temporary Assistance for Needy Families recipients work in exchange for cash assistance, but fails to improve the long-term economic well-being of families.</u> The Legislature has found the New Mexico Works program should help families become self-sufficient. Self-sufficiency implies ensuring families' earnings through work and child support are sufficient to make families independent of government assistance – primarily cash assistance. Building basic skills and increasing Temporary Assistance for Needy Families (TANF) families' exposure to higher-wage employers improves their job advancement, and thus earnings potential.

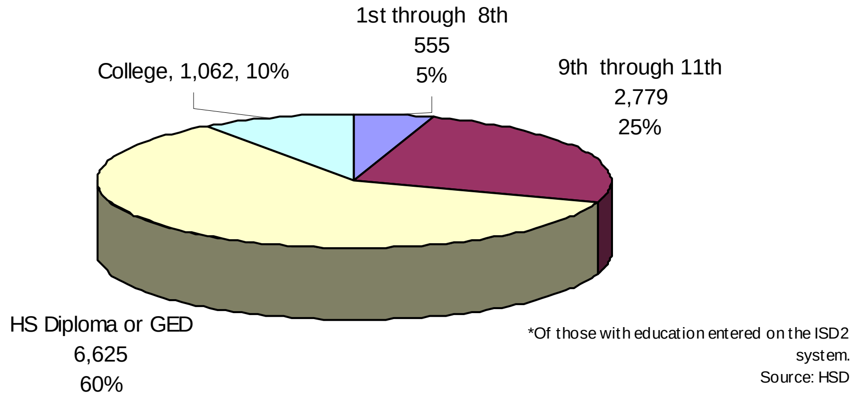
Work-first program strategies limit the department's ability to accomplish the ultimate goal or purpose of the TANF program – which is to move families into self-sufficiency. After federal welfare reform, many states, including New Mexico, adopted a "work-first" approach to TANF. Work-first program models emphasize job search and rapid placement into unsubsidized employment and de-emphasize education and training. Work-first programs increase employment, but their effects tend to fade over time. In addition, work-first strategies do not generally raise family income because earnings from rapid entry into low-wage employment do not exceed lost cash assistance and food stamps.

This strategy does not prove effective especially for the poorest and least skilled TANF recipients. Nationally, despite dramatic increases in earned income and cash from the earned income tax credit, the poorest single-mother families have not overcome the payroll tax burden and losses in cash assistance and food stamp income. This trend has resulted in a net decrease in annual family income from $7,602 in 1994 to $6,960 in 2001, indicating that work and tax credits do not necessarily overcome lack of education and skills.

Most TANF recipients work, but on average earn poverty wages and have limited advancement opportunities. NM Works case mangers focus primarily on processes designed to place TANF families in work activities and monitor their compliance on a monthly basis to ensure families meet their work participation requirements. According to the department's state TANF plan, "immediate entry into the labor market is the preferred activity." On a positive note, this strategy, coupled with generous earnings disregards, has helped New Mexico turn cash assistance into more of a work support than welfare. In FY04, about 64 percent of adults participating in some activity were in unsubsidized employment, far above the national average of 48 percent. However, on average, TANF recipients earn $6.67 per hour which is far below the federal poverty line for a family of three.

Improved employment and wage rates depend on recipient education level and exposure to higher-wage businesses and industries. According to the department, 30 percent of TANF recipients lack at least a high school diploma or general education development (GED) creditial, as shown in the chart *TANF Recipients Education Levels*. A 2002 study on former TANF recipients found strong correlations between rates of employment and wages and a recipient's education level. However, through March 2006 only 6.7 percent of all recipients were placed in education or training activities outside of the separate Education Works program. The 2002 study found that while over half of TANF leavers without a high school diploma or GED still worked, but most worked part-time, earned less, and almost 20 percent eventually returned to TANF.

Chart 1. TANF Recipients Education Levels*
February 2006



According to the Brookings Institute, "low earners' advancement prospects are closely tied to characteristics of the employers for whom they work." In addition, initial low earners, such as parents leaving TANF, can experience stronger earnings gains through employment in "certain high-wage sectors and especially at firms that pay wage premiums and offer career ladders." The 2002 NM Works leaver study found that occupations have a major impact on earnings, work hours, health coverage and advancement. The table, *Desirable Occupations* lists those occupations cited in the leaver study with greatest potential for increased earnings versus less desirable occupations.

Table 1. Desirable Occupations

Most Desirable Occupations	Least Desirable Occupations
Office/Clerical	Restaurant worker
Health Care	Retail worker
Manufacturing	Housekeeping
	Source: Maximus, Inc. *NM TANF Leaver Study*, March 2002

Programs that focus on employment, but allow for short-term education and training, have the greatest impact on employment rates and earnings. According to the Center for Law and Social Policy (CLASP), "research has consistently shown that the most effective welfare-to-work programs are those that adopt a "mixed strategy" — that is, programs that are heavily work focused but include significant skill-building components. The most effective programs target industries and occupations with relatively high earnings, employment growth, and opportunities for advancement; they are closely connected to employers to help TANF recipients gain access to better jobs than they could have gotten on their own; and caseworkers strive to match work activities and employment goals to individual recipients' strengths, barriers, and interests." These programs, particularly the one operated in Portland, Oregon encouraged families to take "good jobs" rather than any job, even if it meant lengthening time on welfare. Education-first programs have delayed impacts on employment and reduced welfare due to program design.

The department lacks outcome measures to regularly assess families' employment, earnings and use of child care after leaving TANF. The department has three key measures related to TANF in the General Appropriations Act of 2006 that include:

- Percent of temporary assistance for needy families' participants that maintain a job for three or more months.
- Percent of all temporary assistance for needy families meeting federally required work participation requirements.
- Number of temporary assistance for needy families' cash assistance recipients who receive a job.

Department contracts with NM Works providers, such as New Mexico State University (NMSU) and the Office of Workforce Training and Development (OWTD), place a significant emphasis on meeting federal work participation requirements and going as far as financial sanctions for continuing to not meet these federal performance measures.

All eight of the department's performance measures for their NM Works contractors focus either on internal program activity – work participation rates – or outcomes for clients still on TANF. None explicitly focus on moving a family off TANF into self-sustaining employment. Even job retention performance measures do not track the percentage of TANF families leaving welfare for work and maintaining employment. Instead, the measure's definition provides that client's can still be on cash assistance to count in the job retention rate. As a result this measure focuses on internal program operations, how well the program ensures clients work in exchange for benefits, than on measuring success of helping families become independent of TANF through work. While participation rate measures focus on process, not results, they are required under federal law and should be met.

Recommendations. The Legislature should require the department to report post-TANF outcome measures to assess the effectives of the department helping families move from welfare to work. The following should replace the existing TANF performance measures reported to the Legislature, except for those related to federal work participation rates. Include *key measures* in the General Appropriations Act (GAA) beginning in FY08.

Outcome Measures (Include key measures with * in the GAA):

Job Entry

- *Percentage of NM Works participants leaving TANF for work.

Job Retention

- *Percentage of former NM Works participants maintaining employment for 6 months.
- Percentage of former NM Works participants maintaining employment for one year.
- Percentage of former NM Works participants maintaining employment for two years.

Success in the Workforce

- *Percentage of former NM Works participants with earned income at or above 150 percent of the federal poverty level.
- Change in former NM Works participants' earnings 12 months after leaving TANF.
- Change in former NM Works participants' earnings 24 months after leaving TANF.

This recommendation does not affect the department's ability to continue tracking existing measures internally.

The department should implement the following.

Report post-TANF performance measures on a quarterly basis to the Legislative Finance Committee, Department of Finance and Administration, and the State Workforce Development Board. Finalize methodology for obtaining data and tracking participant outcomes and begin collecting and reporting outcome measures internally no later than October 1, 2006. Include above performance measures in NM Works employment and training contracts beginning in FY08.

Identify and distribute best practice information to NM Works employment and training contractors on implementing service models that emphasize a mixed approach to obtaining employment and education/training. Continue to work with the workforce development system to identify occupations in demand by employers, skill sets needed for those demand occupations, and design a service delivery system to meet the needs of employers.

NM Works program should co-locate at one-stop centers statewide, but the funding does not need to go through local workforce boards to ensure integration of services.
Integration, or the inclusion, of TANF recipients into the larger workforce development system and one-stop center have clear value-added benefits to most customers, but presents challenges for others. The chart, *TANF-Workforce Integration*, presents both opportunities and challenges for integrating these two systems.

Table 2. TANF-Workforce Integration

OPPORTUNITIES/BENEFITS	CHALLENGES/ CONCERNS
Increased Exposure to Good Employers. Creates stronger linkages to employers, which will increase employment options for TANF families.	***Hard-to-Serve Families.*** Some families need additional social services or intensive case management to address non-employment related issues, such as domestic violence. Workforce programs tend to avoid serving these families.
Expanded Job Seeker Services. One-stop centers provide a broader range of job seeker services.	***Diversion of Resources to Non-Needy Families.*** Pooling funding for "universal" employment services may decrease access for low-income families most in need.
Simplified Access. Co-location of services improves accessibility.	***Increased Stigma.*** Employers may stigmatize workforce system as an extension of the welfare system.
Reduced Stigma. Treats recipients as workers or potential workers rather than "welfare clients."	

Source: Center for Law and Social Policy

Transferring funding through OWTD creates administrative inefficiencies and provides unnecessary resources to entities that do make policy and cannot effect program changes. State law provides TANF rulemaking authority and funding through the department, which ensures consistent policies statewide and a single point of accountability for program outcomes. As a result, though the department transfers funding to OWTD, it technically must treat local boards as service contractors, not a partner in program operation or policy making. From an efficiency standpoint, transferring funding through OWTD adds two additional administrative layers between the department and local service providers, which makes coordination of services at the state and local level very complicated.

The department, OWTD and local boards lack sufficient focus on resolving key policy barriers to integration of TANF into the workforce development system. Workforce development reforms have refocused job training programs and services on meeting the needs of businesses, which in turn benefits job seekers. As a result, OWTD and local boards started assessing business needs, in terms of matching existing local labor pools with employers. If those labor pools do not exist or lack the skills needed by business, OWTD's charge is to ensure the workforce system adjusts its approach to build labor pool's skills sets through targeted occupational education and training for jobs in demand. TANF, as it currently operates, focuses on ensuring recipients work in exchange for cash assistance. As evidenced by data previously cited in this report, TANF recipients typically lack the education and skills needed to meet the needs of employers in demand occupations. However, neither the department nor OWTD has adjusted its service model or policies to focus on developing this part of the existing labor pool in New Mexico.

A number of opportunities exist to integrate TANF and workforce development policy to ensure families receiving cash assistance benefit from greater exposure to business, and business is able to hire qualified candidates. Through the State Workforce Development Board, the department, OWTD and local boards begin to integrate policy between TANF and other workforce services, including the following:

- *Target employer outreach and training resources towards growing industries and demand occupations.* Local boards should identify entry level occupations within each targeted industry, such as health care, to ensure placement opportunities for TANF recipients to obtain employment. Local TANF contractors, regardless of if they were co-located in a one-stop, would work to provide workforce solutions for these industries, by ensuring, through education, training, or job matching, that recipients met the skill needs of the employers.
- *Setting local wage target goals for placing TANF and other customers in jobs.* The state sets a statewide goal for average wages earned by TANF recipients; however, local boards could adopt regionally based wage targets for specific industries or occupations and encourage recipients to gain skills necessary to obtain those jobs. This would help ensure that all areas of the state are targeting high growth/high wage industries and employers for all levels of job seekers, including higher wage entry-level jobs outside the Albuquerque metro area.
- *Develop common post-program outcome performance measures across programs.* These measures such as entered employment, job retention, and wage gain rates would provide common goals for all programs and service providers.

Recommendations. Require all TANF employment and training services contractors to provide services through one-stop career centers statewide. This recommendation will help the department aggressively encourage its contractors to partner with the workforce system in the one-stop site selection process and moving operations into one-stops. The department should not allow contractors to wait for a one-stop to open and then move, but rather the contractors should at the table to help create the one-stop through immediate co-location. This recommendation also applies to the department's staff providing NM Works employment and training services through its regional offices in the northwest and northeast regions of the state.

The department and OWTD should require TANF contractors and local boards to adopt common targeted industries and occupations and set local wage goals for placement of TANF recipients. While the workforce and welfare system should strive to treat TANF recipients as any other job seeker, each still should account for services provide to this population – to ensure both fiscal and programmatic accountability.

Lack of agreement over service delivery plans has hampered integration of NM Works into the One-Stop workforce centers and delayed exposure to higher wage employers for TANF recipients. Long before welfare reforms of the mid-1990's local welfare offices sought to increase employment among recipients. Both federal and state welfare and workforce development reform legislation has placed a renewed focus on eliminating fragmented employment services and job training programs, including the traditionally separate welfare system. In New Mexico, the TANF, adult, dislocated worker and youth programs authorized by the federal Workforce Investment Act of 1998, and one-stop centers have largely operated separately and with limited coordination. The establishment of OWTD and a renewed focus on improving the coordination of these two systems over the past two years has been a major reform endeavor for the state. The approach to implement this reform effort has recently changed with the decisions not to expand the NM Works program to the Northern and Southwest area local boards, and remove the program from funding OWTD and the Central area local board.

Beginning in FY04 the state started to transfer NM Works employment and training services contracts to the workforce development system.

Table 3. N.M. Works – Workforce Integration Timeline 2004-2006

Summer 2004	The department contracts with the Eastern Area workforce board, which in turn contracts with the department's previous contractor – Eastern New Mexico University (ENMU). - to provide NM Works employment and training services.
Fall 2004	OWTD recommends consolidating NM Works employment and training services into OWTD.
Spring 2005	Department staff assumes contractor role in central New Mexico after the University of New Mexico does not renew its contract.
Summer 2005	Department staff assumes contractor roles in northern New Mexico after San Juan College and New Mexico Highlands do not fully renew their contract.
Summer 2005	The department contracts with OWTD for NM Works services. OWTD contracts with the Eastern and Central workforce boards. Eastern maintains its contract with ENMU. Central subcontracts with the Labor Department.
Spring 2006	The Northern and Southwestern Area workforce boards decline to provide NM Works employment and training services in their areas.
Summer 2006	The department announces plans to expand its direct contract with New Mexico State University to provide NM Works services – replacing the Central workforce board and Labor Department– in Albuquerque and surrounding counties for FY07. The department and OWTD also announce plans for HSD to contract directly with the Eastern workforce board for NM Works services.

Source: HSD

The department, OWTD, and local boards have different interpretations of how services should be delivered through the one-stop centers, leading to confusion and delayed implementation of integrated services. Committee staff interviews throughout the review with state and local TANF and workforce administrators revealed very different interpretations of what the department and OWTD was trying to accomplish by "integrating TANF and WIA." All parties understood the meaning of "co-location" of services as all programs (TANF, WIA and other workforce development programs) would be housed within the same physical facility.

The two systems could not agree on an operational definition of service "integration." Some administrators were trying to develop a service model that included a single case worker to provide both TANF and WIA program services to customers. Using a single caseworker for both TANF and WIA programs is not a practical goal in New Mexico at this point in time, but could be in the future. Both agencies would need to undertake significant policy revisions to make program rules and regulations similar enough across programs so that a single caseworker can reasonably be expected to serve customers in separate programs.

In addition, some local administrators had a very different understanding of who was on TANF, what services they needed, and whether the workforce system could or should provide services targeted to TANF families. For example, workforce officials felt strongly that the one-stop centers should not provide "case management" services because that would create a separate program silo and officials did not want to provide what was seen as a social service function. This disagreement was partially exacerbated by TANF administrators that may have given the impression that most of TANF families had significant barriers to employment, like substance abuse and domestic violence issues, and need social service interventions more than employment and training services. In fact, the department requires contractors to provide work program services through case management, and list case management duties that focus on ensuring compliance with program requirements, conducting barrier assessments, and monitoring recipients' treatment and participation in other social service activities.

OWTD's one-stop plan provides a positive step towards integration of services, but outstanding issues over roles and responsibilities of the one-stop operator needs clarification. Local boards are currently approving an ambitious business plan template for their areas during the production of this report. The plan includes many necessary elements to clarify the services that one-stops will provide, and how those services will be paid for. Committee staff identified a number of contentious areas that have yet to be resolved, and that if not addressed could further delay TANF integration and one-stops in general.

- *Separate NM Works program identity*. The department does not require its contractors to use the common one-stop identity of NM Workforce Connection. Continuing to identify the TANF program separately, even if not co-located, will continue to stigmatize TANF recipients and confuse employers.
- *Elimination of program specific case workers.* One-stop partner programs are federally funded, including TANF, and have program specific requirements that need to be implemented to continue funding. The plan does not identify specific staff case workers or career counselors that will be accountable for individual programs' customer outcomes. The plan has this requirement for providing businesses services, but not job seekers.
- *Authority of One-stop operator over program specific staff.* Some local boards have called for having the one-stop operator have day-to-day authority over state and contracted employees from each program.
- *Single agencies that serve as a One-stop operator and service provider exacerbates local turf battles.* Some local areas having one agency, such as the Department of Labor, as both the one-stop operator and WIA service provider. Other programs may see the one-stop operator in this scenario as dominating or running their own operations. This

arrangement may exacerbate local turf battles and does not encourage other agencies, such as CYFD's child care, to participate in the one-stop either.

- *One-stop operators are not seen as providing services to partner agencies.* Many agencies, at least on paper, provide common services to job seekers, such as job listings, outreach to employers, employability classes and have common overhead costs. Partner programs, including TANF, do not view the one-stop operator as a sub-contractor for certain specified services, such as business outreach.

Recommendations. Require TANF employment and training contractors to adopt the "NM Workforce Connection" brand for marketing purposes. Contractors should adopt the common workforce system brand and work with the department to modify forms and client handouts. Contractors should also use staff name badges using the common brand.

Require its contractors to integrate ancillary program services by contracting with one-stop operators. At a minimum, contractors should, within available resources, use one-stop operators for business services, common job resource rooms, career and skills assessments, and employability/soft skills classes.

Designate NM Works "case managers" as "career counselors" and work with OWTD to cross train staff on using job matching databases at one-stop centers. The department's contractors should maintain dedicated career counselors within the one stop to act as a single point of contact for TANF recipients.

OWTD should clarify the roles and responsibility of the one-stop operator as a provider of common services to all one-stop partners. The one-stop operator is not a manager or oversight entity, but rather a provider of targeted services to support employment success of each one-stop partner, including providing a common facility and business outreach services.

Conduct technical assistance site visits to ensure local one-stop partners use the workforce connection brand, provide seamless services to employers and job seekers, and meet the terms of local plan agreements. Provide results of these site visits and one-stop assessments to the state board, partner agencies and local boards.

Prohibit one-stop operators from also serving as a primary provider of a partner program. Separating the one-stop operator from providing programs services, such as TANF or WIA, will help ensure the operator can focus on its primary role as facility operator, business services, and other ancillary services common to all programs such as employability/soft skills classes. This recommendation will also help alleviate local turf battles between agencies and focus resources on co-locating programs and providing a single point of contact to the state's business community.

Families participating in NM Works or other job training programs could benefit from closer coordination and co-location of CYFD's child care program at the one-stop centers. CYFD provides child care services to three key groups of families – TANF participants, families transitioning off TANF to work, and low-income working families considered at-risk of needing TANF. The Committee has long sought for performance measures to assess the effectiveness of the child care program at supporting TANF family's efforts to work and move off cash assistance towards self-sufficiency.

Neither the department nor CYFD regularly examines the use of child care by families participating in the NM Works program. However, Committee staff estimates only about 32 percent of families in the NM Works program use CYFD child care subsidies.[i] Policy makers have recognized the important role child care plays in helping move families off cash assistance and into the workforce and for supporting work among low-income single mothers. In New Mexico, the Legislature uses funds from the TANF program to more than double federal child care program funding. CYFD does track the number of TANF children receiving child care assistance, but this measure does not help policy makers understand the level of use of child care by the larger TANF population.

The state does not regularly track the percentage of TANF families that maintain their child care as they move off welfare and into work. Without this information, the state cannot measure the impact of significant resources in child care services designed to help families move off welfare and into self-sustaining employment. In addition, the department and CYFD lack baseline data to begin to assess whether programmatic barriers exist for families to continue using child care services after leaving TANF. Families that receive child care assistance after leaving TANF work more, earn more, and are more likely to stay employed and not return to welfare. As a result, knowing how many families continue to use this vital work support is critical to successful TANF program.

Families that receive child care assistance after leaving TANF work more, earn more, and are more likely to stay employed and not return to welfare according to research cited by the Urban Institute. However, little research has been conducted to examine how well the TANF and child care systems work together to support family's employment and their efforts to move towards self-sufficiency. According to the Urban Institute, "strategies to increase the use of other federal work supports—such as food stamps and Medicaid— have received increasing attention from policymakers and program administrators, boosting the use of child care subsidies has received significantly less attention."

Separate administrative and policy structures may cause barriers to low-income families, including those on TANF, accessing and maintaining child care services. No plans exist for co-locating child care eligibility workers at one-stop career centers. One-stop centers, NM Works providers, and the CYFD child care program all operate through separate state agencies and have separate local offices and yet serve many of the same families. As a result, low-income working families, including those trying to work their way off TANF must often navigate three separate agencies' eligibility policies, intake and recertification processes in addition to traveling to multiple office locations to access services.

Conceptually, a clear link exists between child care subsidies and successfully moving families off cash assistance and into work. In fact, families on TANF and those transitioning off TANF towards work receive the highest priority for child care services. However, the process and policies for families to obtain and keep child care as they transition from welfare to work is far more complicated.

According to Urban Institute research, many reasons may exist for families not continuing to use child care after leaving TANF and include:

- Lack of awareness that they may still qualify.
- Personal decision not to use the benefit.
- Burdensome parental requirements of working with two separate systems (agencies).
- Administrative structure that does not facilitate continued use of subsidies. This would include barriers such as separate local offices, additional paperwork, need for two separate program staff to communicate families' case status.

Interviews with administrators, local caseworkers, families and a review of state policies revealed similar potential barriers in New Mexico. The child care program generally operates as a separate program and TANF caseworkers refer families for services. Further local coordination is limited. Committee staff conducted field visits at four TANF offices and four one-stop centers and only found information about CYFD child care services at one office – a one-stop in Ruidoso.[ii] However, local TANF administrators and caseworkers indicated they would like a closer working relationship with counterparts at CYFD's child care program and that sometimes coordination was difficult due to separate offices.

Recommendations. The department and CYFD should track both current and former TANF parents' use of child care subsidies on a quarterly basis and report results to the Committee and the Welfare Reform Oversight Committee annually. Specifically, the agencies should assess the percentage of TANF cases required to participate in NM Works that use child care subsidies; and the percentage of TANF cases maintaining child care as they transition off TANF into work. Begin collecting and reporting measures internally later no than October 1, 2006.

CYFD should co-locate child care eligibility workers at a minimum of three one-stops by the end of FY07. CYFD should target one-stop centers that include TANF for co-location. CYFD may co-locate eligibility workers on a part-time basis, but should adjust their caseloads to include families co-enrolled on TANF and child care assistance.

OWTD should exempt CYFD child care services from any common branding or integration requirements for one-stop partner programs to eliminate possible confusion for customers.

ADJUSTMENTS TO NEW MEXICO WORKS POLICIES WOULD ENSURE FAMILIES CAN EFFECTIVELY TRANSITION OFF CASH ASSISTANCE INTO SELF-SUSTAINING EMPLOYMENT.

NM Works earnings disregard policies that reward families for increasing their work hours and keep cash assistance are complicated and may not be helping families as intended. State law provides a significant incentive to TANF recipients to increase their work hours for the first two years of receiving cash assistance. Generally, earnings disregard programs only encourage part-time work among recipients. TANF recipients working more hours than the minimum requirement (typically 24 for a single mother with a child under age six) may keep that income without reducing the amount of their cash grant. In addition, state law provides a significant disregard of earned income when determining cash assistance. The work incentive deduction has the effect of allowing families to remain on TANF while working by not counting income that would have disqualified a family from the old Aid to Dependent Families and Children Program (AFDC). Under the old AFDC program, requirements for TANF recipients to work increased employment and decreased welfare receipt on a dollar for dollar basis and rapidly disqualify families from assistance. This effect was seen as a barrier to encouraging more families to work instead of relying on cash assistance only. New Mexico's earnings supplement policies seek to boost employment, increase family income and turn cash assistance into a work support rather than welfare.

Encouraging increased family income by combining welfare and work penalizes families in an era of time-limited benefits. Earnings supplement programs consistently help increase family income, as evidenced by the example in Table 4. However, these programs are less effective at helping move families *off* welfare to work or decrease welfare receipt according to MDRC research. According to the U.S. House Ways and Means Committee "increasing earnings disregards raises the level of income at which a family loses eligibility for benefits. This keeps more families on welfare and could actually decrease work, through reductions in work effort that are at least partially offset by the welfare payment. The increased length of time allowed for families with earnings also has implications for welfare time limits."

Families in New Mexico have a life-time limit of five years of assistance and could easily work for most, if not all, five years while on TANF and not be better off financially. Under the current earnings disregard policies, a New Mexico single mother with two children could earn up to $8.80 per hour before losing cash assistance – assuming she has no child care expenses – in her first two years on the program. Table 5 provides examples of the hourly wages and works hours a recipient can earn before losing cash assistance after the excess hours disregard expires.

Earnings supplement programs that only provide additional assistance for recipients working full-time generate significant increases in earned income. Even in the best programs earnings are not enough to offset losses in cash assistance and food stamps.

Table 4. N.M. Works Act: Earnings Supplement Policies
Case Example

Excess Hours Disregard	
Gross Earned Income (35 hrs/wk * 4.3 weeks * $6.54/hr= Gross Earned Income)	$843.66
Participation Standard Earned Income (24 hrs/wk *4.3=103 hrs/mo*$6.54/hr= Participation Standard Earned Income)	$674.93
Total Earned Income Disregarded (Gross Earned Income – Participation Standard Income= Total Wages Disregarded)	$168.73
Work Incentive Deduction	
Earned Income (Participation Standard Earned Income)	$674.93
Countable Earned Income (Participation Standard Earned Income - $125 = Countable Earned Income)	$549.93
Net Earned Income (Countable Earned Income/2 = Net Income)	$274.97
Standard of Need [$389 family of three]	$389.00
Cash Grant Amount [Welfare Check] (Standard of Need– *Net Earned Income = Cash Grant)*	***$114.04***
Income from Work and Welfare (Gross Earned Income + Cash Grant Amount)	**$957.70**

Source: HSD Formula Worksheet.
LFC Assumptions: Single Parent Working 35 hours a week and earning Statewide Average Wage of $6.54 as of Jan. 2006.

Table 5. Maximum Hourly Wage Families Can Earn Before Losing TANF After 24 Months

Hours Per Week	Maximum Hourly Wage
40	$5.25
35	$6.00
30	$7.00
25	$8.40

LFC Assumptions: Family of three with no child care expenses or other earned income deductions loses cash assistance at $903 in gross earnings after two years of TANF.
Source: LFC Analysis

The department does not regularly track the use of the excess hours disregard benefit by TANF families, but other data indicate few families may be using the benefit. Few of the total number of cases closed per month are due to loss of the excess hours worked disregard, indicating that it may be underutilized on a continuous basis by families. For example, in March 2006 only four percent of TANF cases closed were due to loss of the excess hours worked disregard. The department does monitor the number of families each month that lose benefits due to the expiration of the 24 month time limit on the disregard benefit and the number that are no longer eligible. Neither of these data shows how long families use the benefit, to what extent, and how much additional income – or TANF benefits are paid due to the disregard.

The excess hours disregard benefit policy may be too complicated for families to understand its effect, and excludes many hard-to-serve families that are working to remove work barriers their first couple of years on TANF. The department does not communicate through flyers or other handouts how families can use this valuable benefit, thus limiting the policies effectiveness and families incentive to increase their work hours. Committee staff did not observe verbal marketing of the benefit to families during eligibility sessions either. Eligibility workers indicated that families often do not understand the policy's effect, the policy is complicated to explain, and eligibility workers struggle to know exactly how the benefit works since ISD2 automatically calculates the disregard.

The excess hours disregard usefulness is limited to the first two years of TANF receipt. However, many families may miss out on using this incentive if they have been exempt from work due to a temporary disability, child under 12 months, working to resolve a domestic violence issue, or even obtaining education and training during part of their first 24 months on TANF. Many of the harder-to-serve families may benefit more than others from the excess work hours policy so they can gain full-time work experience without losing benefits and services.

Recommendations. Consider amending state law to replace the excess hours worked disregard with a post-TANF job retention bonus. The post-TANF job retention bonus program should limit assistance to no more than 18 months after a recipient leaves TANF for work. The statute should provide the department with the authority to administer the job retention bonus, subject to the availability of state and federal funds. The department, like in current law, would have the authority to set the amount of the bonus. Families working and receiving the bonus would help the state meet its federal work participation rates.

The legislature could also choose to clarify in statute that receipt of the post-TANF job retention bonus does not constitute a welfare payment, does not count against a family's 60 month time limit and require the department to use only TANF-Maintenance of Effort (MOE) to fund the bonus. This provision would allow families that leave welfare and work to not have the receipt of the job retention bonus count against a family's lifetime limit of receiving assistance.

Provide budget authority to the department to pay a post-TANF job retention bonus out of the TANF-MOE appropriation for cash assistance. The legislature appropriated about $11.5 million in state TANF-MOE for cash assistance and related support for FY07. The GAA should include "post-TANF job retention bonus" as an allowable expenditure specifically from these state funds for FY08. This approach will give the department sufficient flexibility to budget for the bonus. In addition, using state TANF funds will ensure the bonus, which is not a welfare payment, would not count against a family's federal 60 month time-limit.

The department should include the post-TANF job retention bonus in the department's FY08 TANF budget request.

Child care eligibility policies inadvertently discourage low-income working families, including those formerly on TANF, from increasing their work effort and income. Child care benefits are only paid for families that work or attend education or training activities (NMAC 8.15.2.11 (M)) and have income below 150 percent of the federal poverty level (FPL). Since taking office, the Richardson administration has sought to increase the availability of child care services by expanding eligibility criteria from 100 percent FPL to the current limit of 150 percent FPL. The Legislature has placed significant emphasis on, and put resources into, the child care program to allow much of this expansion, including appropriating over $35 million from the TANF program per year. In addition, the Legislature appropriated over $2.6 million in additional general fund for FY07. Funding for child care assistance has nearly doubled over the past seven years, increasing from about $43.2 million in FY99 to $80.5 million in FY06. During that same time period the number of children receiving subsides has increased modestly from about 17,000 to 25,000.

Stable and affordable child care increases employment, disposable income, and helps families stay off TANF. Child care costs, particularly for higher quality care, can force low-income families to pay a significant portion of their income towards this work support. According the CLASP, 65 percent of poor, single, working mothers paid at least 40 percent or more of their income for child care in 2001.

Policy makers have recognized the important role child care plays in helping move families off cash assistance and into the workforce and for supporting work among low-income single mothers. As a result, both at the national and state level, an unprecedented amount of resources have been directed at child care services as part of broader welfare reform efforts. In New Mexico, the Legislature uses funds from the TANF program to more than double federal child care program funding.

Families that increase their work effort and earn even a single dollar over the 150 percent FPL lose all child care assistance and cause a financial hardship. The sudden drop off in benefits is commonly referred to as a "cliff effect." Marginal increases in family income due to increased work hours or modest wage hikes can cause families to lose child care benefits and cause financial hardship. Families may be less likely to try and increase their work effort if modest increases in income from work result in significant new costs for child care. For example, Committee staff estimates that an Albuquerque family of three with one infant and one toddler needing full-time child care with earnings at the 150 percent FPL ($24,135) receives an annual subsidy of $703.53 per month or $8,442.36 annually. This family would be required to pay a $181.50 co-pay, or about nine percent of gross income, to the child care center each month. Assuming the family did not have child care assistance through CYFD, they would pay $885 per month for the same care or 44 percent of the family's pre-tax income. A full year of care would cost about $10,620.

The state provides a larger child care subsidy to the poorest families and sets an expectation that as income rises, so should a family's contribution to its child care cost. As an example, according to CYFD "a family of three at 100 percent FPL with one child in full-time subsidized care would have a monthly co-payment of $53.00, or 3.9 percent of their income – [whereas] the same family with a monthly income at 150 percent FPL would have a monthly co-payment of $124.00, or six percent of their income. Families with earnings over 50 percent of FPL are required to share the cost of child care with the state by paying a co-payment. This co-payment is paid directly to child care providers and the amount of the co-payment is subtracted from the state rate.

Proposals to expand child care eligibility up to 200 percent of the federal poverty level could cost the state about $10 million in state funds annually. The legislature considered numerous proposals to expand child care eligibility up to 200 percent FPL during the 2006 session. The proposals would allow CYFD to serve an additional 3,100 children per month, but at a considerable investment of state resources. The legislature did provide funding to expand eligibility up to 155 percent FPL by adding almost $1.4 million in state funds to the program.

States have broad discretion to set child care eligibility policies – including tiered entry and exit eligibility levels – to meet state needs for cost-effective services. Most states set a single income threshold for determining child care assistance eligibility. According to CLASP, some states, including Colorado, Florida, Massachusetts, Montana, and Wisconsin, apply higher income thresholds before a family is disqualified for child care rather than for those first seeking care. For example, Florida provides child care assistance to families at or below 150 percent FPL and allows families to remain eligible up to 200 percent FPL. As families increase their income above 150 percent FPL they lose disposable income from benefits such as food stamps and earned income tax credits. The loss of these other work supports and child care may cause families to experience two scenarios – return to TANF and other social welfare programs, or decrease their work effort by foregoing pay increases and promotions or cut back on hours worked. With either option, families' incentives for work and increased earned income are limited. The tiered eligibility, especially when combined with increasing co-pays, provides the following benefits.

- *Supports increased work.* Allows low-income families to increase their work effort to a higher income threshold.
- *Targets limited resources at families most in need.*
- *Promotes personal responsibility.* As family income increases, so do their financial contributions to their child care through higher co-pays, which helps ameliorate the "cliff effect" and better help families transition off child care assistance.
- *Cost-effective approach to expand services to more families.* Because tiered eligibility structures target higher eligibility thresholds to families working their way off child care, it costs states less than simply expanding eligibility to families already earning more than 150 percent FPL.

Recommendations. The Legislature should consider maintaining child care eligibility thresholds at 155 percent FPL, but target any future expansion funding to raise the exit level eligibility threshold. The specific exit level eligibility threshold and the number of families and children benefiting, would depend on the amount of additional funding.

CYFD should provide an estimate to the Committee no later than October 15, 2006 of the costs to increase exit-level eligibility thresholds to 175, 185, and 200 percent of FPL. In the estimate, CYFD should assume maintaining the entry-level threshold at FY07 levels of 155 percent FPL.

<u>TANF policies limit the Child Support program's effectiveness at helping increase family income and provide stable income as they move off cash assistance towards self-sufficiency.</u> The mission of the child support program is to recover or reduce state and federal cash assistance costs associated with the TANF program, and maximize child support collected on behalf of New Mexico's children. As a requirement to receive TANF, a parent must cooperate with the child support program or face financial sanctions. State law requires a family applying for TANF to assign all child support to the state while they are on cash assistance, including any outstanding amounts owed to the family before they applied for assistance. New Mexico state law exempts $50 of a family's child support income when determining TANF, which allows the family to keep some child support without decreasing their cash grant. This policy, in effect, helps increase family income through child support as the New Mexico Works Act intends, but only modestly. The first $50 in child support collected by the State's Child Support Enforcement Program is passed on to the TANF benefit group. This money is disregarded, or not counted as income in determining eligibility and has the effect of increasing their monthly benefit amount. The total expenditure for the child support disregard is paid with state funds.

New Mexico lags behind nationally in helping families obtain child support before they leave TANF. About four percent of families leaving TANF receive child support payments in New Mexico. The national average is about 16 percent. Regular child support payments help stabilize family income, allowing very poor single mothers to leave and stay off cash assistance. According to the Center on Law and Poverty, parents with child support find jobs quicker and hold jobs longer because the support supplements regular earned income from work. Families also can use the added income to overcome temporary job loss or unexpected expenses, such as auto repairs, that can help families remain independent of cash assistance.

Recent federal changes to the child support program provide an opportunity for New Mexico to increase family income through child support. The federal Deficit Reduction Act of 2005 modifies child support distribution policies to allow states to increase the amount of support passed through to families receiving cash assistance – with the federal government waiving its claim on this support. As a result the federal government is allowing states to further shift child support away from purely a cash assistance "cost recovery" program.

Among other changes, the federal legislation waives the federal share of support collected, about 66 percent, if states pass through all the child support to families formerly on TANF, and if states pass through up to $100 for one child and $200 for two children and disregards that income when calculating TANF benefits. New Mexico already allows families to keep $50 of their child support. For families on TANF, the federal government would, in effect, pay 66 percent of the cost.

The legislation would also provide state's with the option of allowing families to keep child support owed to them at the time of applying for TANF, rather than assigning that potential income to the state.

Increasing child support payments going directly to mothers, and disregarding the extra income when determining benefits, can increase the number of fathers making payments. Generous child support distribution policies have the effect of increasing collection rates, receipts and paternity establishment. Child support provides an important source of income to supplement work earnings as families leave TANF. Receipt of child support decreases the likelihood of families needing to return to TANF as well. The department has implemented child support reforms to increase collections from non-custodial parents. For example, Governor Richardson's Fresh Start Program seeks to improve the regular collection of support owed by first targeting parents who owe more that $20,000 in support. The program helps restructure these parent's payments so their children can begin receiving regular monthly payments. Often non-custodial parents that owed large amounts are more likely to avoid the system, or experience financial and work hardships - none of which helps provide regular support for their children.

Recommendations. Amend state law to authorize the department to increase the amount of child support going to families on TANF from $50 per month to $100 for families with one child and $200 for families with two or more children.

The department should include the increased child support pass-through in its FY08 budget request.

Provide the Committee with an estimated cost of passing through and disregarding all child support income for families on TANF.

More information is needed to determine the effectiveness of domestic violence and substance abuse programs at helping families alleviate these barriers, participate in work-related activities and leave TANF for work. The Legislature appropriates about $2.6 million each year in TANF funds for domestic violence services and $800,000 for substance abuse treatment services. The department contracts with CYFD to oversee statewide domestic violence services and Value Options, Inc. to provide substance abuse treatment services. All families under 100 percent FPL may receive either service, but TANF recipients are a priority population. Domestic service providers help ensure work requirements are appropriate for TANF recipients, provide crisis intervention, counseling, legal services, and training for other TANF providers. Value Options oversees outpatient substance abuse treatment services not covered by Medicaid.

CYFD has spent about $1.5 million of its $2.6 million in TANF funds for domestic violence through March 2006. Domestic violence programs have served 534 families on TANF and 1,415 low-income families not on TANF. Value Options has served 194 TANF recipients and 104 low-income individuals and expended about $460,000.

The department does not collect outcome data related to domestic violence or substance abuse and struggles to ensure families receive needed services. Only about 14 percent of referrals for substance abuse and about 25 percent for domestic violence resulted in service for the first half of FY06. NM Works contractors conduct in-depth assessments for TANF recipients that have a positive barrier screening, are referred by a caseworker or have been on TANF for 36 months. Through March of FY06, only about eight percent of TANF recipients participating in substance abuse services have completed the treatment program.

The department tracks the number and type of services families receive from domestic violence providers, but does not assess whether these services result in a family being able to participate in the work program or leave TANF for work. In addition, the department's contracts lack performance indicators to hold providers accountable for ensuring families facing domestic violence are safe and resolve any behavioral health issues associated with family violence.

Committee staff attempted to assess whether these ancillary services were funded at a level sufficient, or not, to meet the current need. The department does not regularly collect data in a format to determine the actual need for these services, such as the percentage of families needing domestic violence and substance abuse services and the percentage of TANF families receiving these services.

The department does screen and conduct in-depth barrier assessments for domestic violence, but data has been incomplete. About 34 percent of all screenings show domestic violence as a potential employment barrier. This data is incomplete because the department did not track the number unduplicated individuals facing a domestic violence barrier. The department screened 10,101 individuals in FY05 for serious employment-related barriers. The department did not, however, track the unduplicated number of clients with a positive screening making it impossible to determine what portions of individuals screened have a serious employment barrier.

Recommendations. The department should work with CYFD to collect data to show outcomes for domestic violence services provided to TANF families. At a minimum, the outcome information should include annual measures related to the percentage of families participating in domestic violence services that meet work participation requirements. The department may use the data sample already regularly collected for federal reporting purposes.

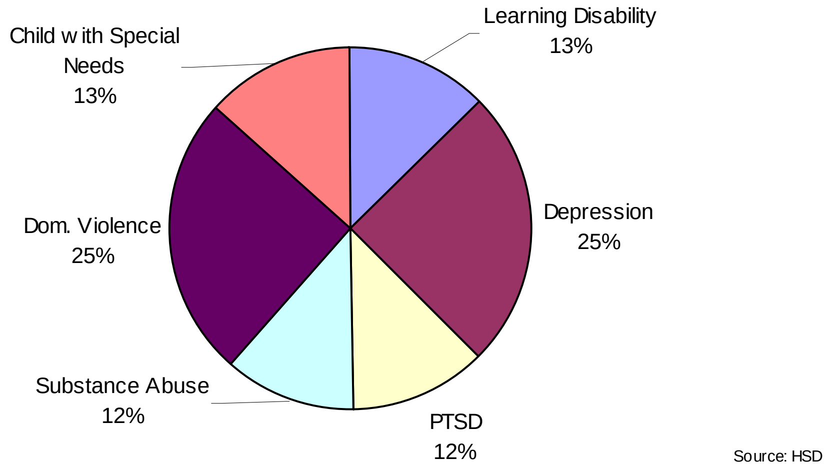
The department should also use performance indicators developed by CYFD to assess safety and improved well-being of families receiving domestic violence to services ensure data collection reports from domestic violence providers include an accurate count of the monthly number of TANF families served.

The department should work with Value Options to collect data to show outcomes for TANF families participating in substance abuse treatment services. At a minimum, the outcome information should include annual measures related to the percentage of families participating in substance abuse services that meet work participation requirements.

Mental health issues account for the most identified barrier assessed by the department, yet state law does not allow treatment as an alternative work activity. Issues related to mental health (depression, post-traumatic stress disorder [PTSD]) account for 37 percent of all barriers identified through in-depth assessments of TANF recipients as shown in Chart 2, *In-Depth Assessment Results*. When mental health is combined with substance abuse, the behavioral health issues account for almost half of all identified serious barriers, or 49 percent. Medicaid covers mental health treatment, so additional targeted funding does not appear needed at this time.

New Mexico law allows parents to participate in temporary alternative work activities designed to ameliorate employment barriers, such as domestic violence and substance abuse treatment. These activities are not recognized by the federal government in calculating work participation rates, even though states have discretion to devise their own work requirements. For example, families facing domestic violence, substance or who are homeless can participate in approved work activities related to those issues on a temporary basis, no more than 12 weeks, without being sanctioned for not working. Participation in short-term mental health treatment, however does not count as a work activity. As a result, TANF recipients with severe depression or other mental health problems may not get the services they need and are at-risk for being sanctioned. Research shows families with barriers, such as mental health issues, are more likely to have their benefits reduced because of non-compliance.

Chart 2. In-Depth Assessment Results by Type
July-Feb. 2006



Recommendations. Amend state law to add mental health treatment services for, at a minimum, depression and post-traumatic stress disorder to the list of authorized TANF temporary work alternative activities. Amending this state law will help ensure that families identified with these barriers can participate in activities, on a temporary basis, designed to improve their ability to work, without facing financial sanctions. This recommendation would not preclude a TANF recipient from working or combining treatment services with other work – related activities.

The department should amend its state TANF plan as needed to reflect any statute changes.

<u>Without statutory and budget changes, recent federal reauthorization of TANF may adversely affect the NM Works program and put the state at-risk of losing $5 million or more in federal funding.</u> New Mexico risks losing $5 million in federal funds, or more, for not meeting new TANF work participation rate performance measures. Recent Congressional reauthorization of the TANF program made a series of changes that make meeting federal performance requirements more difficult for New Mexico. The federal TANF law requires states to engage at least 50 percent of all families, and 90 percent of two-parent families in work activities, also referred to as a "work participation rate."

The department has improved its two-parent participation rate through April 2006 to 63 percent, still far short of the federally required 90 percent. According to the Center on Budget and Policy

Priorities, "most researchers and agencies view this [two-parent participation] rate as unreachable." However, the state may face financial penalties in the future for not meeting the two-parent rate that include, at a minimum, a requirement to increase state general fund TANF-MOE spending by five percent.

Under the original TANF law the participation rate was reduced for every percentage point drop in the overall TANF caseload, using 1995 as the starting year. For example, New Mexico's effective work participation rate for federal FY04 was eight percent instead of 50 percent for all families, and 48 percent instead of 90 percent for two-parent families. The department easily met this performance measure, having successfully engaged 46 percent of all families and 55 percent of two-parent families in work activities during federal FY04.

New Mexico could designate the funding associated with its two-parent TANF program as non-TANF to avoid possible sanctions, without increasing general fund expenditures. This change would simply swap existing funding categories, general fund and state general funds counted as TANF-MOE. This change would allow the department to remove the two-parent program from the state TANF plan, and as a result, the program would be a state program and be separate from any federal oversight. The Legislature could maintain the same existing requirements, including work participation requirements for families and two-parent work participation rate requirements for the department and its contractors.

Recommendations. The Legislature should consider creating a separate state two-parent cash assistance program. Overall, this change will result in no net increase in state general fund spending. This recommendation will require that the Legislature swap state spending between the TANF program and other existing state expenditures that count as MOE under federal law. New Mexico already expends state funds on a number of programs that could be certified as MOE, including early childhood education programs. Specifically, budget writers would need to do the following.

- Identify the amount spent on cash assistance for two-parent families, and categorize it as state TANF-MOE.
- Remove the state TANF-MOE designation from the cash assistance amount for two-parent families, thus removing this funding from the TANF budget.
- Designate or count existing state spending on full-day kindergarten, Pre-K, child protective services, child support pass-through funds, or child care as state TANF-MOE.

The department should provide Committee staff an estimate on cash assistance expenditures for two-parent families for FY06, FY07 and FY08.

Remove the two-parent program from the TANF state plan.

LACK OF OWTD AUTHORITY AND DECENTRALIZED ADMINISTRATION MAY IMPEDE FURTHER PROGRESS TO ENGAGE AND MEET THE NEEDS OF NEW MEXICO'S BUSINESSES AND JOB SEEKERS.

The Office of Workforce Training and Development has spent much of its first two years improving past deficiencies in WIA program, but more progress is needed to meet the statutory goals for workforce coordination. The creation of OWTD by Governor Richardson and the Legislature has proven an effective catalyst in correcting previous deficiencies and making improvements to the WIA program, including program finances and information technology. OWTD has made some progress setting up one-stop centers, though more progress is needed.

OWTD has shown improvements in three key areas of the workforce development system.

Fiscal Integrity. During the 2003 review of WIA, Committee staff could not evaluate funding due to financial deficiencies. Since assuming administration of WIA, OWTD has spent considerable time resolving these financial problems and has reconciled program funding so that the state and local boards at least know how much funding they have for each year. OWTD has also implemented financial controls to help ensure funding is spent appropriately and unexpended balances do not lapse back to the federal government. Appendix A, Workforce Investment Act Funding, shows the authorized budget for WIA. OWTD is still working with local boards to complete financial audits to verify actual expenditures for FY05.

Data Integrity. Lack of data integrity proved problematic during the last Committee review as well. OWTD has resolved many of the data integrity issues, including correcting 18,000 data errors contained in the Virtual One-Stop System (VOSS). The agency has also instituted regular data integrity controls to remove human error data problems going forward. The state and local boards should have more confidence in the data contained in VOSS, though extracting data appears problematic for local boards. As with most information technology systems, changes may be needed to make the system more user friendly for local administrators.

One-Stop Career Center Planning. OWTD has facilitated the development of a one-stop business plan that at the time of this report was being adopted by various local boards. This plan provides, among other benefits, a template for helping local boards work to establish consistent services for businesses and job seekers and allocate service costs across programs. OWTD expects implementation of six comprehensive one-stops by the end of FY06.

Slow, but somewhat steady progress has been made implementing comprehensive one-stop career centers statewide. The workforce boards in the eastern area and central area have each established two comprehensive one-stop centers each. The state, as evidenced by the problems integrating TANF, still struggles to create a clear operational model for the one-stop that accommodates other state agencies and shows the value added-benefits of simple co-location for other programs, such as child care.

OWTD staff have struggled to broaden their coordination responsibilities to all employment training services, not just those funded by WIA. House Bill 98 requires OWTD to increase coordination, integration and accountability for job training programs from all funding sources and to build a successful workforce system. However, OWTD has not clearly defined its staff's role and responsibilities regarding the coordination and oversight of services, not funded by OWTD, but critical to effective workforce development at the local board and one-stop center levels. Specifically, OWTD staff "liaisons" assigned to assist individual local boards does not possess an intimate knowledge of several important aspects of their local boards operations or administrative and fiscal entities, nor the progress made towards a fully integrated one-stop service center in their area. In addition, OWTD liaisons do not appear to provide sufficient technical and logistical assistance for local boards to facilitate the co-location and integration of WIA and other mandated partners into a comprehensive one-stop service center. Instead, staff is primarily focused on providing technical assistance for the WIA programs, not facilitating broader coordination among other state agencies and local boards. According to OWTD management and beginning July 1, 2006 the role of the liaisons will change to address the issues raised in this report.

OWTD has not developed a comprehensive performance-based accountability system that includes all partner agencies as required by state law. As a result, the board does not regularly review performance of all the state's employment and training programs, such as programs located in the Human Services Department, the Labor Department, Economic Development Department, etc. Focus on the WIA programs (adult, dislocated worker and youth) operations and other issue generally dominates board discussions. Others agency administrators may see little role for their programs, such as child care, in a workforce system that is seen as only the WIA programs.

The State and local workforce boards' roles and authority are not clearly defined, which may result in inappropriate board interference in daily operations of OWTD and one-stop centers. The state workforce board has focused significant efforts on holding OWTD accountable for resolving the fiscal, data and one-stop operational guide issues since the last Committee review. The focus and attention on these items was critical and appropriate, however in the future the board should refocus its attention to broader strategic policy recommendations and holding all employment and training programs across state agencies, not just WIA programs administered by OWTD, accountable for results. Similarly, local boards have had to been significantly involved in the operation of WIA program services and negotiating agreements for one-stop co-location.

New board members do not receive training on the operations of the board, its statutory duties, authority, budget information, or prohibition on conflict of interest.

Recommendations. OWTD should clearly define its staff liaison responsibilities to provide guidance and technical assistance specific to co-location and integration of one-stop centers. This change will help staff broaden focus beyond the WIA adult, dislocated worker and youth programs and meet the statutory goals for OWTD to coordinate all employment and training programs.

OWTD should require all partner agencies to submit performance data on a quarterly basis and provide a summary of the performance information to the State board for review. The State board should, at a minimum, review the performance of the workforce development system on a quarterly basis. OWTD should work with partner agencies to develop or modify common performance measures on job entry, retention, and wage gains across workforce development programs.

The State Workforce Development Board and OWTD should develop a policy clearly defining each entities duties and responsibilities. If local boards do not have a policy in place, OWTD should require local boards to adopt a similar policy between local boards and their administrative and fiscal entities.

OWTD should develop and provide new board member training for State board members.

<u>The Legislature and Executive branch may need to consolidate administrative authority of most employment and training programs into a new single department to enhance accountability.</u> Soon after its creation OWTD was charged with evaluating the need to consolidate workforce programs in addition to identifying ways to improve cross agency coordination. OWTD recommended that the NM Works employment and training program be consolidate into the office. Conducting this type of evaluation so early in OWTD's inception may have been premature, since the agency needed to resolve significant programmatic problems within the WIA program. In addition, the state had not yet aggressively attempted to coordinate employment and training services through an independent agency.

The Legislature added a provision into OWTD's statute for the agency to sunset on July 1, 2011, which will force an evaluation of the continuing need for the agency in the future.

The state's workforce development system remains fragmented and dilutes scarce resources across multiple layers of state and local administrative entities. OWTD estimates the state spends about $310 million for workforce development related programs across 11 state agencies. The state spreads its limited $18 million in federal WIA funds across four local boards. Local boards can use these funds for program administration of the WIA adult, dislocated worker, and youth programs and its one-stop duties. However, as federal funds continue to decline local boards have fewer resources to just administer WIA, let alone coordinating all $310 million in workforce programs.

Appendix I, details Workforce Investment Act program funding and how the state allocates funds across the state for the WIA program. The data show local boards have historically not spent all of their program funding and will rely heavily on unexpended balances for the next program year. Sooner than later, the state and local boards will not have as much available funding as these unexpended balances are finally spent on services. The local boards will rely only on each year's WIA grant amount, rather than the grant and previously unexpended balances.

Local boards and OWTD authority and capacity to create one-stop career centers and integrate services are limited, without significant intervention from the Governor. Local boards and OWTD only have statutory authority to administer about $18 million in federal WIA funding. With this funding comes the requirement for boards to establish one-stop centers in their area. However, establishing one-stops requires other state agencies and programs to move operations into a single location. Even with improved OWTD internal operations, both the local boards and OWTD lack any authority to make this co-location happen – only the other Cabinet secretaries at the direction of the governor can move the agency programs quicker. Committee staff identified the following barriers to further progress co-location programs.

- Lack of OWTD authority to make changes to agency's field office locations.
- Inability to break or modify other agency's rental agreements.
- Inability to secure office space without knowing which agencies will co-locate and when.
- Infrastructure costs of moving computer access and other equipment, though the legislature has allocated funding to address this problem beginning in FY07.

Consolidating additional programs through local boards adds additional layers of administration and diverts board member attention from policy and engaging employers. The TANF experiment provides an example of how inefficient sending new programs through local boards can be. In addition, local boards in the areas that received TANF funds spent considerable time and effort dealing with operational problems associated with the transfer, diverting attention from more strategic policy making and engaging employers on developing regional workforce solutions. Furthermore, locals have also had to divert considerable time attempting to overcome administrative barriers from some state agencies on simply co-locating programs at one-stops.

Recommendations. The Legislature should consider an interim study during 2007 of options to consolidate workforce development programs into a single department and how services should be delivered to job seekers and employers. To avoid additional layers of administration, Committee staff does not recommend using local boards as local administrative units under this structure. Local boards should, however, have a role in oversight of services, workforce policy-making, and engaging employers in their areas.

Consolidation of programs into a single department has many advantages, but also pitfalls. Committee staff recognizes this policy option will not resolve long-standing fragmentation and turf battles among employment and training programs by itself. Any structure the Legislature deems appropriate will require strong leadership and vision from the chief executive and the new cabinet secretary. However, consolidation of authority over buildings and rental agreements provides an opportunity for the state to co-locate programs at one-stops more rapidly. Co-location at least provides dramatic improvement to New Mexico citizens that currently are forced to visit multiple office locations to receive comprehensive workforce services.

OWTD should develop and present policy options for streamlining the administrative role of local boards to the Governor, Legislature, and State Board by November 1, 2006. At a minimum, OWTD should include the following in its report.

- Existing federal requirements on use of local workforce boards, including the Governor and Legislature's authority under federal law to establish or change New Mexico's local board areas, local board structure and use of local administrative entities and fiscal agents.
- Update on current proposals under consideration by Congress for federal reauthorization of the Workforce Investment Act of 1998. Include information on recommendations from national organizations representing state interests.

- Five or more examples from other state's workforce development reform efforts related to state agency consolidation and roles and use of state and local boards for policy making and administration, including Utah and Indiana.

Other states are currently seeking flexibility under federal law to streamline and target the role of local boards in the workforce system so they can focus on policy, such as targeting high growth/high wage industries and engaging employers in workforce solutions by acting as a broker between government and higher education and employers and industries. The policy options should identify if legislation is needed.

The State and OWTD has implemented 91 percent of the recommendations from the LFC report on New Mexico's implementation of the Workforce Investment Act. Appendix B indicates full or partial implementation of 20 (91 percent) major recommendations reported in the June 2004 report. Of the twenty 11 of 22 or 50 percent were fully implemented satisfactorily and nine or 41 percent were partially implemented. Only two major recommendations reported were not implemented.

One recommendation that is only partially implemented but needs to be fully implemented soon is listed in the first row in second column. In short it states that the State needs to increase efforts, assistance and cooperation by all mandatory partners to make one-stop centers truly comprehensive. It is critical to the OWTD in their efforts to successfully meet the requirements of the Workforce Investment Act.

Recommendation. Continue implementation of recommendations directed at OWTD categorized as "partially implemented" or "in-progress."

New Mexico Human Services Department

Office of the Secretary
PO Box 2348
Santa Fe, NM 87504-2348
Phone: (505) 827-7750; Fax: (505) 827-6286

Bill Richardson, Governor
Pamela S. Hyde, J.D., Secretary

July 5, 2006

Legislative Finance Committee
325 Don Gaspar
Suite 101
Santa Fe, NM 87501

Dear Chairman Varela:

This letter is the Human Services Department (HSD) response to the Welfare and Workforce Development Reforms and Integration Legislative Finance Committee (LFC) Performance Review Report.

This review is timely in light of the recent changes in the reauthorization of the Temporary Assistance for Needy Families (TANF) program that Congress passed, and President Bush signed into law. The Deficit Reduction Act (DRA) requires states to engage more TANF participants in productive work activities.

The Department currently collects and reports data as prescribed by the federal funding source for TANF, Health and Human Services (HHS) Administration for Children and Families (ACF) and the New Mexico State Legislature, New Mexico Works Act. The Department may expand data collection and reporting beyond the regular scope.

The Department collects certain "TANF leaver" data. States typically have a difficult time collecting data from TANF leavers. The Department is currently evaluating the use of data from the National New Hires database, Department of Labor (DOL), and a private company called The Work Number© to collect "TANF leaver" employment data. HSD will need to develop new methodology for collecting and reporting the leaver data as recommended by the report. In addition the Department will work with Value Options and the Children Youth and Families Department (CYFD) to better coordinate data collection and reporting as recommended for substance abuse, mental health, child care and domestic violence services. HSD will require sufficient additional administrative dollars to put this recommendation in place and maintain it.

The Department is also currently evaluating the TANF data reported in the Monthly Statistical Report (MSR). The Department will make any necessary changes to report more relative TANF outcome data based on the changes in the DRA and the recommendations listed in the LFC Performance Review Report.

Currently HSD utilizes TANF staff to focus on the integration of TANF with the Workforce Investment Act (WIA) program. In the last year, HSD staff have provided best practice information through email correspondence to NMW contractors but recognizes the necessity to meet in person more regularly. The Department will reinstate regular quarterly NMW contract meetings to discuss best practices and "mixed strategies" in serving the TANF population.

The Department is committed to continuing our partnership with the Governor's Office of Workforce Training and Development (OWTD) to build a stronger workforce development system. To demonstrate the Department's commitment toward this goal, HSD staff amended the FY 07 New Mexico Works (NMW) scope of work to focus on job seeker services rather than specific TANF processes. The new scope of work was designed to help break down integration barriers.

HSD will work with OWTD to encourage local staff from NMW, WIA, and community partners to meet regularly at the local level to encourage partnerships and ensure collaboration while planning for participation in the workforce development one-stop shop. The use of a non biased one-stop operator will promote agency/partner participation in the one stop. Adopting the "NM Workforce Connection" brand by NMW may also help to break down integration barriers by viewing TANF participants as job seekers rather than welfare recipients. However, both HSD and the NMW contractors will require additional administrative funding to accommodate the cost associated with changes to forms, brochures, signage, etc.

The report recommendation to designate NMW case managers as career counselors is a concept that HSD will have to research further. HSD believes that case management is necessary to ensure that participants follow through with required work activities towards becoming self sufficient and helping the department meet federal work participation rates. Linking participants to supportive services and tracking their participation in those services is an important part of assisting the participants in becoming self-sufficient. The title of career counselor does not accurately describe an employment program that uses a social services case management model. Perhaps case management and career counseling are two separate services that should be available to all types of job seekers.

The recommendation to replace the excess work hour disregard is complicated by changes in the TANF program under the DRA. The Department agrees that the policy may be too complex for families to understand the benefits of the disregard. HSD is committed to researching effective employment incentives including the recommendation in the LFC report to create a TANF Separate State Program using State General Fund as TANF Maintenance of Effort (MOE). The recommendation to use a cash assistance incentive bonus to encourage job retention provides an opportunity for case managers to continue to offer supportive services as part of a "mixed strategy" effort.

The recommendation in the LFC report to increase the child support disregard from $50.00 up to $200.00 will be analyzed further by the Department for cost and the impact on eligibility for other programs such as childcare, Medicaid, housing, etc. This would certainly increase the amount of TANF MOE that could be credited for New Mexico while promoting self sufficiency for the TANF population.

The recommendation to allow treatment as an alternative work activity is complicated by changes in the DRA. According to the recent changes to the TANF regulations, HHS will allow states to count recipients in substance abuse, mental health and other rehabilitation services to count under the "job search/job readiness" work category. Such treatment or therapy must be determined to be necessary and certified by a qualified medical or mental health professional. These activities must be supervised by the TANF agency or other responsible party daily. The activity is limited by federal statute to six weeks per year, of which no more than four weeks may be consecutive to count toward the work participation rates. Any allowable activity beyond what is allowed by HHS will count against New Mexico in meeting the federal work participation rates. The Department agrees with the recommendation to amend state law to allow treatment as an alternative work activity with the exception that it should reflect the new federal regulation limitations.

The Department is concerned about costly sanctions for not meeting the federal work participation rates relative to the changes in the DRA especially with the two-parent caseload. No state in the Nation has been able to meet the 90% work participation rate requirement without the previous caseload reduction credit. Although HSD is evaluating various other options, the Department agrees that a separate state program may be the most effective way to avoid a costly sanction by using State General Fund for a two-parent cash assistance program and not count the funding as TANF MOE.

In light of the changes in the DRA and the recommendations of the LFC report, HSD will be creating a policy workgroup that can further analyze changes to the NMW program along with the related cost for any Information Technology (IT) changes, data matching, and the impact on staffing. HSD will report to the Welfare Reform Oversight Committee the findings and recommendations from the workgroup.

HSD wants to thank Charles Sallee of the LFC for his fair analysis, findings, and recommendations. The Department looks forward to working together to improve TANF services in New Mexico.

If you have any further questions, please do not hesitate to contact Katie Falls, Deputy Secretary at Katie.Falls@state.nm.us or at 827-7750.

Sincerely,

Pamela S. Hyde, J.D.
Secretary

State of New Mexico
CHILDREN, YOUTH AND FAMILIES DEPARTMENT

BILL RICHARDSON
GOVERNOR

DIANE DENISH
LIEUTENANT GOVERNOR

DORIAN DODSON
CABINET SECRETARY-DESIGNATE

DANNY SANDOVAL
DEPUTY CABINET SECRETARY

MARISOL ATKINS
DEPUTY CABINET SECRETARY

RECD JUL - 5 2006

July 5, 2006

Mr. David Abbey, Director Legislative Finance Committee
325 Don Gaspar, Suite 200
Santa Fe, New Mexico 87501

Dear Mr. Abbey:

Below are the Children, Youth and Families responses to LFC Performance Review of Welfare and Workforce Development Reforms and Integration. Please include these comments as the Agency's official response.

Recommendations. The department and CYFD should track both current and former TANF parents' use of child care subsidies on a quarterly basis and report results to the Committee and the Welfare Reform Oversight Committee annually. Specifically, the agencies should assess the percentage of TANF cases required to participate in NM Works that use child care subsidies; and the percentage of TANF cases maintaining child care as they transition off TANF into work. Begin collecting and reporting measures internally later on than October 1, 2006.

CYFD Comments: *Currently CYFD tracks TANF families who are receiving child care subsidy. FS does not track former TANF families who have transitioned off of TANF and are continuing to receive child care subsidy. CYFD can design a report to collect this data by October 2006. CYFD will need to test the data and can begin reporting data by January 2007.*

CYFD should co-locate child care eligibility workers at a minimum of three one-stops by the end of FY07. CYFD should target one-stop centers that include TANF for co-location. CYFD may co-locate eligibility workers on a part-time basis, but should adjust their caseloads to include families co-enrolled on TANF and child assistance.

CYFD Comments: *CYFD supports the concept of co-location, but would like to raise*

FAMILY SERVICES
P.O. DRAWER 5160 • SANTA FE, N.M. • 87502
PHONE: (505) 827-7659 • TOLL FREE: (800) 610-7610 • FAX: (505) 827-9978

two issues that need to be addressed. The first issue is child care eligibility case management. CYFD would need to revise the current structure used by child care field supervisors to distribute and manage caseload. The second issue is the needed access to the service delivery system for child care assistance (Family Automated Client Tracking System-FACTS) by the CYFD child care eligibility workers. Each office housing a child care eligibility worker requires access to FACTS. As this system currently is not web-enabled, access requires dedicated data lines.

An alternative to permanent co-location may be interim co-location (for example: child care eligibility workers at co-location site 2-3 days per week or as needed to assure quality, timely service). Interim co-location would provide the same service as permanent co-location, but be less resource intensive. Interim co-location would help address the two issues with permanent co-location.

OWTD should exempt CYFD child care services from any common branding or integration requirements for one-stop partner programs to eliminate possible confusion for customers.

No CYFD Comments

Recommendations. The Legislature should consider maintaining child care eligibility thresholds at 155 percent FPL, but target any future expansion funding to raise the exit level eligibility threshold. The specific exit level eligibility threshold and the number of families and children benefiting, would depend on the amount of additional funding.

CYFD should provide an estimate to the Committee no later than October 15, 2006 of the costs to increase exit-level eligibility thresholds to 175, 185, and 200 percent of FPL. In the estimate, CYFD should assume maintaining the entry-level threshold at FY07 levels of 155 percent FPL.

CYFD Comments: *Maintaining child care eligibility thresholds at 155 percent FPL, but raising the exit level eligibility threshold may present a potential problem with perceived inequity. An applicant for child care assistance who is anywhere from 156 percent FPL to 200 percent FPL will be denied services because child care eligibility is at 155 percent FPL, but clients who have entered the child care assistance system at or below 155 percent FPL will continue to receive services until they reach 200 percent FPL. Example: A child care assistance applicant has begun receiving services because they qualify at 150 percent FPL. This client can continue receiving services until they reach 200 percent FPL. Another child care assistance applicant was denied services because they are at 156 percent FPL. This applicant will not qualify for services unless the family income falls below 155 percent FPL.*

This option of increasing the exit-level eligibility threshold will cause caseloads to grow because not as many child care cases will be closed due to income (the drop off rate will fall). With increase caseloads comes the need for additional staff to manage caseloads.

If caseloads are increased and funding is insufficient, CYFD faces a potential child care waiting list.

Please feel free to contact Danny Sandoval or myself at 827-7602 if you have any questions.

Sincerely,

For Dorian Dodson
Cabinet Secretary-Designate

Bill Richardson
GOVERNOR

Len Malry
EXECUTIVE DIRECTOR

Governor's Office of
WORKFORCE TRAINING & DEVELOPMENT

July 5, 2006

Mr. David Abbey, Director
Legislative Finance Committee
325 Don Gaspar, Suite 101
Santa Fe, New Mexico 87501

Dear Mr. Abbey:

The following is the Office of Workforce Training and Development's response to the Legislative Finance Committee's performance review of Welfare and Workforce Development Reforms and Integration.

Lack of agreement over service delivery plans has hampered integration of NM Works into the One-Stop workforce centers and delayed exposure to higher wage employers for TANF recipients. (pages 6 and 7)

Although there has been a change in service providers in the Central region, the commitment to co-locate and integrate remains strong. Recent decisions not to expand the program through the Northern and Southwestern local workforce development areas and to remove the program from flowing through the OWTD and the Central area board is based on readiness of the areas to take on the TANF program. Co-located areas continue to exist in the Eastern and Central areas.

(For the first time, the Department and OWTD provided joint monitoring of their two programs in the Eastern area in June.)

Regarding challenges of service integration, the eleven site specific plans that are represented throughout all four local regions as well as the one-stop partner integration team ("sweet sixteen") continue to work through these issues to develop a model that is acceptable to all partners.

Recommendations. Require TANF employment and training contractors to adopt the "NM Workforce Connection" brand for marketing purposes. Contractors should adopt the common workforce system brand and work with the department to modify forms and client handouts. Contractors should also use staff name badges using the common brand. (pages 8 and 9).

The OWTD recommends this apply to all partners providing employment services in the workforce development system (New Mexico Workforce Connection).

Recommendation: Prohibit one-stop operators from also serving as a primary provider of a partner program. Separating the one-stop operator from providing programs services, such as TANF or WIA will help ensure the operator can focus on its primary role as facility operator, business services, and other ancillary services common to all programs such as employability/soft skills classes. (page 9)

This recommendation can be accomplished through an MOU and CAA that makes the operators responsible to the local regional board.

Recommendations: CYFD should co-locate child care eligibility workers at a minimum of three one-stops by the end of FY07. CYFD should target one-stop centers that include TANF for co-location. CYFD may co-locate eligibility workers on a part-time basis, but should adjust their caseloads to include families co-enrolled on TANF and child care assistance. (page 11)

No plans exist for co-locating child care eligibility workers at one-stop career centers, but realizing a clear link exists between child care subsidies and successfully moving families off cash assistance and into work, discussions have occurred and both agencies are committed to developing such plans that will initially focus on locations in the Eastern and Central areas.

The OWTD is in discussions with CYFD about how to best provide on-site child care at one-stop career centers while job seekers are accessing employment services and/or beginning employment.

The Office of Workforce Training and Development has spent much of its first two years improving past deficiencies in WIA program, but more progress is needed to meet the statutory goals for workforce coordination. (page 23)

One-Stop Career Center Planning (Update):

The Southwestern Board plans to adopt four sites in July and the Northern Board is through some facility ownership issues with NMDOL to establish at least two sites before July 2007.

The OWTD staff have struggled to broaden their coordination responsibilities to all employment training services, not just funded by WIA (page 24).
The OWTD plans to forward a template at the July LFC hearing that includes an expanded list of workforce programs and suggested performance measures that track short and long term impact on customers. It is intended this data be updated quarterly.

Recommendations Not Implemented (page 29)

1. Collect performance information from providers when its waiver expires on June 30, 2004

An extension to the waiver regarding the collection of performance information from providers was transmitted to USDOL on April 10, 2006, requesting extension from the original waiver date of June 30, 2004 through June 30, 2007. USDOL has 90 days to respond and/or approve all waivers and OWTD has not received a response to date. As this waiver is a waiver that has been approved and is still in use for all states within our Federal Region, it is very unlikely that USDOL will not approve the waiver and waiver extension dates. Upon receipt of the approval from USDOL a copy will be forwarded to the LFC Performance Review Committee.

2. Develop procedures that allow one-stop operators to report suspected reverse referrals.

A review of the characterization of a reverse referral as illegal or technically illegal was performed by Connie Reischman, Attorney. It was Ms. Reischman's determination that this interpretation was incorrect. A letter was transmitted to Raymond Gonzales, USDOL from Ms. Reischman regarding the matter. Inasmuch as the process of reverse referral was not deemed as illegal or against the Workforce Investment Act, the development of a policy was deemed as unnecessary. Based on the evaluation by Ms. Reischman, the OWTD requests that this finding be closed.

Thank you for the opportunity to respond to the performance review. Your staff was very professional, informative and a pleasure to work with. If there is any additional information needed, please feel free to contact me.

Sincerely,

LEN MALRY
Executive Director

Workforce Investment Act Program Funding

Workforce Investment Act Funding		PY04/FY05	PY05/FY06
OWTD	***Total Authorized Funding***	***$3,138,518***	***$3,376,990***
Statewide Activities		$1,808,816	$1,888,795
Statewide Administration		$904,406	$944,396
Statewide Rapid Response		$425,296	$543,799
Northern Area LWDB	***Total Authorized Funding***	***$6,646,140***	***$6,335,684***
	Local Administration	$321,012	$340,603
	Program Grant (Adult, youth, dislocated worker)	$2,889,108	$3,065,426
	Previous Year Formula Carryover	$2,076,020	$2,059,710
	Supplemental Funding	$1,360,000	$869,945
Central Area LWDB	***Total Authorized Funding***	***$6,727,690***	***$6,319,217***
	Local Administration	$364,846	$362,029
	Program Grant (Adult, youth, dislocated worker)	$3,283,614	$3,258,265
	Previous Year Formula Carryover	$1,386,705	$1,834,962
	Supplemental Funding	$1,692,525	$863,961
Eastern Area LWDB	***Total Authorized Funding***	***$6,083,693***	***$5,323,116***
	Local Administration	$307,145	$292,562
	Program Grant (Adult, youth, dislocated worker)	$2,764,300	$2,633,059
	Previous Year Formula Carryover	$2,058,579	$2,097,495
	Supplemental Funding	$953,669	$300,000
Southwest LWDB	***Total Authorized Funding***	***$10,916,436***	***$8,203,512***
	Local Administration	$507,297	$557,005
	Program Grant (Adult, youth, dislocated worker)	$4,565,674	$5,013,047
	Previous Year Formula Carryover	$5,110,918	$2,154,999
	Supplemental Funding	$732,547	$478,461
PY04/FY05 WIA STATEWIDE BUDGET AUTHORITY		***$33,512,477***	***$29,558,519***

Source: Office of Workforce Development and Training

Status of all report recommendations as of May 13, 2006		
Recommendations Fully Implemented (11)	**Recommendations Partially Implemented or In-Progress (9)**	**Recommendations Not Implemented (2)**
The Governor should designate a new agency as the state administrative entity for the Workforce Investment Act (WIA).	The State needs to increase efforts, assistance and cooperation by all mandatory partners to make one-stop centers truly comprehensive. The State should assume control over all primary state facilities involved in the delivery of WIA services.**	Collect performance information from providers when its waiver expires on June 30, 2004.
The legislature should amend state law so that the Department of Labor is no longer the administrative or fiscal agent for the state board.	The Local Boards should ensure training programs tie to appropriate occupations; establish approval criteria for training programs consistent with WIA requirements; and review training approved by one-stop operators to ensure they're consistent with board directives.	Develop procedures that allow one-stop operators to report suspected reverse referrals.
Create guidelines for local boards to certify one-stop centers based on service availability and partnering.	Provide local boards with the information necessary to evaluate their one-stop operators; investigate complaints concerning conflicts of interest and undue influence by board members; and grant the WIA monitoring entity the discretion and power to effect sanctions and corrective actions.	
The State should publish a bi-annual report on agency participation in the one-stop centers.	The State Budget Division require agencies with workforce development activities adopt performance measures for FY06 such as the percent of participants entering into unsubsidized employment; percent retained in unsubsidized employment 6 months later; and percent increase in employment earnings.	
Ensure that plans of local boards contain provisions related to service priority.	The State should establish program specific internal controls, procedures, and guidelines; and require the local workforce development board investment plan contain criteria to measure fiscal agent performance.	
The State, in consultation with the local boards, should establish formal policies and procedures to ensure the integrity of the VOSS database. The State should monitor action items identified by USDOL, the local boards and the application vendor.	The State Workforce Development Board needs to update the State plan to require Board involvement in determining priorities for "10 percent" funds; approve policies and procedures that eliminate conflict of interest issues and follow the procurement code. Work with Local Boards to develop a boiler plate contract for a training provider inclusive of WIA elements.	
The State require training providers have contracts with local boards that contain all WIA elements; remove providers that do not meet acceptable standards; and review local board criteria for approving training programs. Create provisions to allow performance contracting with training providers and OJT employers.	The Governor's office should issue an administrative order for partner participation in the one-stop.	
The Governor should appoint the required minimum number of State Workforce Development Board (SWDB) members.	Local boards provide business services through their one-stop services; evaluate their centers on the effectiveness of providing these services; and ensure their services meet the needs of local businesses.	
The Legislature should amend the State law that outlines specific membership requirements for the State Board.		
The State should Reissue OJT guidelines to adequately address potential conflict of interest issues. Require thorough and timely review of OJT agreements involving members. Develop rules and regulations relating to proxy voting and agency appointments; and recertify Board		

membership to comply with WIA.		
The Local Boards should develop internal control policies and procedures; criteria to evaluate fiscal agent performance; and actively monitor financial systems and the information produced by those systems.		

Source: LFC compilation based on information provided by the Office of Workforce Training and Development.
** Two recommendations were consolidate into one recommendation for readability purposes, but are considered two separate recommendations for calculating percentages.