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FISCAL IMPACT REPORT

ORIGINAL DATE 8/16/08
LAST UPDATED 8/17/08 **HB** 7/aHAFC

SPONSOR HAFC

SHORT TITLE Appropriations for the Child Care Program **SB** _____

ANALYST Lucero

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
\$7,200.0		Non-Recurring	TANF

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Children, Youth and Families Department (CYFD)

Human Services Department (HSD)

SUMMARY

Synopsis of HAFC Amendment

House Appropriations and Finance Committee amendment to HB 7 strikes section 2 in its entirety which appropriated \$13.2 million for expenditure in fiscal year 2010 for the child care program to sustain eligibility for the program at two hundred percent of the federal poverty level (FPL).

Synopsis of Original Bill

House Bill 7 appropriates \$7,200,000 from the Temporary Assistance for Needy Families (TANF) block grant to the Income Support Division (ISD) of the Human Services Department (HSD) for the Children, Youth and Families Department for expenditure in fiscal year 2009 to sustain eligibility for the child care program, including expansion of eligibility for the program at two hundred percent of the federal poverty level (FPL).

House Bill 13 appropriates \$13,200,000 from the general fund to the Children, Youth and Families Department for expenditure in fiscal year 2010 for the child care program to sustain eligibility at two hundred percent of the federal poverty level.

HB7 declares an emergency.

FISCAL IMPLICATIONS

As amended, the bill appropriates \$7,200,000 as a non-recurring expense to the Temporary Assistance for Needy Families (TANF) block grant. Any unexpended or unencumbered balance remaining at the end of 2009 shall revert to the TANF program. The appropriation would be split with \$5 million to sustain the child care budget at 165 percent of FPL and \$2.2 million to begin increasing eligibility to 200 percent of FPL.

The appropriation of \$7,200,000 contained in this bill is a non-recurring expense to the Temporary Assistance for Needy Families (TANF) block grant. Any unexpended or unencumbered balance remaining at the end of 2009 shall revert to the TANF program.

The appropriation of \$13,200,000 contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of 2010 shall revert to the general fund.

HSD notes that the \$13.2 million may be credited toward the TANF Maintenance of Effort (MOE) requirement.

SIGNIFICANT ISSUES

As amended, this bill appropriates non-recurring revenue for a recurring cost and may obligate the Legislature to consider appropriating general fund to replace the TANF revenue in the future.

As amended, this bill proposes use \$2.2 million to begin increasing eligibility to 200 percent of FPL. It should be noted that this program expansion is a recurring cost which would require additional recurring appropriations from the general fund in future years. Several initiatives have started with non-recurring funding from TANF only to be later replaced with appropriations from the general fund; including full-day kindergarten. A risk of committing future general fund appropriations is associated with using TANF fund to expand eligibility to 200 percent of FPL.

Based on CYFD projections, the department anticipates that the child care assistance program will be fully subscribed by fall 2008 and CYFD anticipates implementing a “waiting list.” However, it should be noted that CYFD does not currently have a “waiting list” and has not had to run a “waiting list” for a number of years.

It should be noted that CYFD submitted an FY09 child care projection to LFC staff; however, the projection did not include actual enrollment for July. Without data showing actual enrollment (over several months) it is nearly impossible to validate the projected shortfall.

The \$7.2 TANF appropriation in this bill will be divided between two purposes, \$5 million would be used to maintain eligibility at 165 percent of the FPL and \$2.2 million would be used to increase eligibility to 200 percent of the FPL.

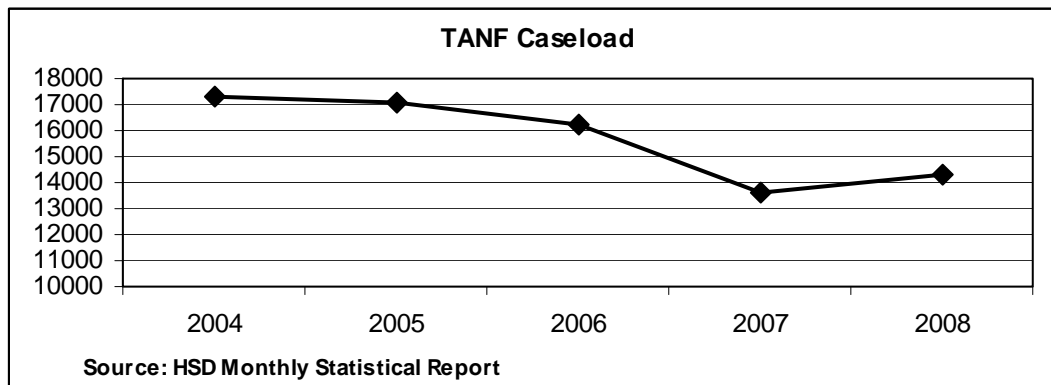
A state can transfer up to 30 percent of its TANF block grant to the Child Care and Development Fund (CCDF). The transferred funds will be subject to the rules of the CCDF and not be treated as TANF assistance. However, when a state spends more than 30 percent of the TANF block

grant (typically referred to as direct assistance) on child care, the portion in excess of 30 percent is considered TANF assistance, meaning that it will be counted against a client’s federal TANF time limit of five years and the client is subject to TANF rules including participation rates and eligibility. Additionally, if families receiving direct TANF assistance also receive child support, then the child support must be assigned to the state (and the state will be required to return the federal share of that child support) as a condition of receiving TANF assistance.

Of the \$7.2 million TANF appropriation, \$2.2 million would be used to increase eligibility to two hundred percent of the FPL.

HSD notes that TANF funds appropriated for childcare beyond the 30 percent, such as the \$7,200,000, must be administered according to the federal TANF rules; and thus, must be used to serve TANF recipients and TANF eligible individuals (up to 100% FPL).

It should be noted that the overall TANF caseload has decreased over the last five years. CYFD did not provide information regarding the number of child care clients receiving child care subsidies who are enrolled in TANF.



The 2010 appropriation of \$13.2 million should be evaluated along with CYFD’s operating budget request for 2010 and considered as a whole. CYFD may have other initiatives, such as the Missouri model of juvenile reform, which may have greater financial need than raising the child care eligibility up to 200 percent of FPL.

CYFD notes that the child care assistance program subsidizes the cost of child care for low income families that are working and/or in school and have a need for child care. With the monthly cost of non-subsidized child care averaging \$550 per month, CYFD estimates that child care consumes between 20 percent and 33 percent of the average household budget, possibly more for families earning incomes less than the average.

CYFD cites a national study (“Staying Employed After Welfare,” Heather Boushey, Economic Policy Institute Briefing Paper) has shown that former welfare recipients with young children are 60 percent more likely to still be employed after two years if they receive help paying for child care. However, CYFD does not report information on the percentage of New Mexico clients employed after two years. Additionally, CYFD reported that a study by the Bureau of Business and Economic Research (BBER) at the University of New Mexico showed families enrolled in the Child Care Assistance Program showed a 15 percent annual increase in income for families enrolled in New Mexico’s Child Care Assistance Program.

PERFORMANCE IMPLICATIONS

A significant barrier to entering the workforce is childcare. The bill does not address an increased level of employment, job retention, educational attainment, increased income, etc associated with increasing eligibility to 200 percent of the FPL.

CYFD maintains performance measures focusing the number of clients served through child care assistance with an emphasis on children participating in the child care assistance program who are receiving child care in programs attaining higher levels of quality through the AIM HIGH/STARS program.

ADMINISTRATIVE IMPLICATIONS

While this legislation will increase the caseload of each child care eligibility worker statewide, CYFD will absorb the administrative impact with existing resources in FY09; however, the department will conduct a caseload analysis for each office statewide, and consider staffing pattern adjustments in FY10.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

None known.

TECHNICAL ISSUES

According to the Center for Law and Social Policy, there are significant disadvantages when a state spends TANF funds directly on child care (that is, funds in excess of the 30 percent allowed to be transferred to CCDF). When a state spends TANF funds directly on child care, those funds are considered “assistance” for TANF purposes and subject to the five year time limit, families receiving child support are required to assign their child support to the state and the state must return the federal share of the assignment, the client is included in the state’s participation rate calculation, and the client is subject to all of the TANF reporting requirements.

TANF has narrow requirements for calculating participation rates. TANF emphasizes work-focused activities to count toward participation rates. Additional information is required from the Human Services Department to determine whether the TANF appropriation can be spent on clients who are enrolled full-time in school. Recently, New Mexico carved out Education Works (clients enrolled in school) from the TANF program due to the more stringent work requirements following the TANF reauthorization.

OTHER SUBSTANTIVE ISSUES

According to the New Mexico Health Policy Commission’s (HPC) *Quick Facts 2008*, the overall number of children under the age of seventeen is projected to continue to decrease from levels recorded in the 2000 census. However, it can be noted that although overall numbers are decreasing, the number of children under the age of 5 is projected to increase.

Selected Age Groups	Census 4/1/2000	Projection July 2005	Projection July 2010
Under 5 years	130,628	135,834	145,063
5 to 13 years	258,831	236,087	230,962
14 to 17 years	119,115	115,613	103,380
14 to 17 years	119,115	115,613	103,380
Total	627,689	603,147	582,785

Source: Quick Facts 2008 NM Health Policy Commission

Given the projected decrease in the number of children aged 5 to 17 and the growing number of children under the age of 5, CYFD may want to consider prioritizing infants and toddlers when considering increasing eligibility to 200 percent of poverty.

Recent studies have shown positive outcomes on early brain development when infants and young toddlers (under the age of 5) are exposed to quality early childhood development programs, such as high quality childcare.

Also according to HPC *Quick Facts 2008*:

The 2006 median income for households was \$40,629 in NM compared to \$48,451 in the U.S. and per capita income (inflation-adjusted dollars) in NM was \$20,913 compared to \$25,267 in the U.S.

The U.S. Census Bureau reports a 3-year average (2004-2006) poverty percentage of 17.1% in NM, the fourth highest in the U.S. followed by Louisiana (17.4%), the District of Columbia (18.8%) and Mississippi (19.8%). The U.S. average was 12.5% for this period.

- In 2006, 13.8% of families were below poverty level in NM compared to 9.8% in the U.S..
- In NM, 26% of children were living in poverty compared to 18% in the U.S.

The average annual cost of a subsidized child care slot in New Mexico is \$3,800 or \$316 per month (CYFD Childcare Road Map July 2008). The child care benefit should be weighed against the potential loss of child support due to the TANF requirement to assign child support payments to the state. In some cases, the loss of child support income combined with the TANF reporting requirements and the work requirement may not be offset/worth the child care benefit.

HSD notes that Congress enacted changes to TANF in the Deficit Reduction Act of 2005 (DRA) that substantially increase the proportion of assistance recipients who must participate in work activities for a specified number of hours each week. Under the DRA, 50 percent of all adults in a state that are receiving TANF assistance and 90 percent of two-parent households receiving assistance must participate in a set of work activities defined in the law. These percentages are lower for states that reduce their TANF caseloads below 2005 levels, but since caseloads are already at historic lows, few states are likely to reach this target quickly. Because of this, New Mexico must explore strategies that improve the quality of the New Mexico Works TANF program, increase engagement in those programs, and extend supports to low-income working families. This appropriation extends supports to low income working families.

ALTERNATIVES

Postpone action on this bill until January when more data would be available to analyze FY09 child care enrollment.

Additionally, it would prudent to evaluate other CYFD initiatives, such as the Missouri model, alongside the request to increase child care eligibility to 200 percent of FPL. Appropriating \$13.2 million for child care could impair the department’s ability to fully executive juvenile reform efforts.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

CYFD notes that the consequences of not enacting this bill would result in the need to establish a “waiting list” in fall 2008 that would not allow new eligible families at 165% of the Federal Poverty Level to access the program at the time of application.

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