

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

FISCAL IMPACT REPORT

BILL NUMBER: House Bill 304

SHORT TITLE: Payments for Child Care or Pre-K

SPONSOR: Duncan

LAST ORIGINAL
UPDATE: _____ **DATE:** 02/18/26 **ANALYST:** Malone

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*

(dollars in thousands)

Agency/Program	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
ECECD Operating	\$0	\$2,500.0	\$2,500.0	\$5,000.0	Recurring	General Fund
ECECD Cash Assistance Payments	\$0	Up to \$1,734,000.0	Up to \$1,734,000.0	Up to \$3,468,000.0	Recurring	General Fund

Parentheses () indicate expenditure decreases.
 *Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency or Agencies Providing Analysis

Early Childhood Education and Care Department (ECECD)

Agency or Agencies That Were Asked for Analysis but did not Respond

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of House Bill 304

House Bill 304 (HB304) creates a new cash assistance program, operated by the Early Childhood Education and Care Department (ECECD) for parents of children not enrolled in a state-funded child care or pre-kindergarten program. Cash assistance of between \$1,375 and \$2,500 is available monthly to parents of children ages 0 to 5.

Parents must submit an application to ECECD including documentation of the child’s birth or guardianship, the parents’ relationship to the child and state residency, and that the child is not enrolled in a state-funded child care or pre-kindergarten program. ECECD must determine eligibility within 60 days of receipt of a completed application and promptly begin making payments to eligible parents.

Monthly payments to eligible parents are determined by the age of a child, as follows:

- \$2,500 for each infant, defined as ages 0 up to 24 months;
- \$1,975 for each toddler, defined as ages 24 months up to 36 months; and

- \$1,375 for each preschool-age child, defined as 3 years old to 5 years old.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, which is May 20, 2026.

FISCAL IMPLICATIONS

This bill creates a cash assistance program for New Mexico parents of \$1,375-\$2,500 per month per eligible child, or up to \$16.5 thousand - \$30 thousand per child annually. The fiscal impact therefore depends primarily on the number of children who meet the bill's eligibility criteria and on household participation rates.

Based on birth cohort data, the population of children age five and under in New Mexico is approximately 135,200. Assuming an even distribution across birth years, roughly 45,000 are infants, 22,500 are toddlers, and 67,600 are preschool-age children as defined by HB304. LFC then subtracts an estimated 13,000 infants, 11,000 toddlers, and 37,500 preschool-age children based on child enrollment in ECECD-registered child care homes or licensed facilities or in preschool or kindergarten, adjusted to reflect the recent expansion of the universal child care program. The remaining approximately 32,000 infants, 11,500 toddlers, and 30,000 preschool-age children could meet the bill's requirement that the parents' child not be enrolled in a state-funded child care or pre-kindergarten program. If the parents of all children in this residual population participate in the new cash assistance program for a full year, the resulting maximum annual fiscal impact would be approximately \$1.7 billion. Although this estimate may overstate true participation, the minimal eligibility and participation requirements for cash assistance suggest that uptake by eligible parents may be anticipated to be high.

For programmatic implementation, ECECD estimates that the agency will require 30 new FTE to process certifications of eligibility. At an estimated cost of \$83.7 thousand each, the agency anticipates a total annual cost of roughly \$2.5 million to implement the new cash assistance program.

SIGNIFICANT ISSUES

HB304 creates a cash assistance program available to many New Mexico parents of \$1,375-\$2,500 per month per eligible child age five or under who is not enrolled in a state-funded child care or pre-kindergarten program. The policy intent of the bill appears to be to reduce the financial necessity for parents of very young children to participate in the workforce by directly compensating families who provide care at home.

In New Mexico, annual costs for center-based care for toddlers and preschoolers can exceed \$10 thousand per child. The cash assistance in HB304, ranging from \$16.5 thousand - \$30 thousand would more than offset these costs for eligible families. Some dual-earner households may elect for one parent to remain at home rather than utilize paid child care, reducing demand for publicly supported or subsidized child care slots. To the extent this occurs, the state could experience some offsetting savings on the appropriations side from reduced utilization of universal or subsidized child care programs. However, an unknown share of beneficiaries—particularly married households with toddlers—already have one parent staying home. In those cases, the credit would primarily compensate behavior that is already occurring rather than induce new labor-force or child-care decisions. Although this program takes the form of direct cash

assistance, in tax policy terms, this reflects “buying the base,” where a substantial portion of program cost is attributable to existing electors rather than behavioral change, increasing overall fiscal exposure without a commensurate change in outcomes. This raises questions about targeting and distributional efficiency, particularly in the absence of income limits.

The bill’s eligibility structure is closely tied to New Mexico’s early education framework. Children must be under the age at which public school kindergarten is an option, which generally requires a child to be five years old before September 1 of the school year, with limited early enrollment options thereafter. As a result, the bill applies to a population currently served largely by private child care providers or informal care arrangements. While the cash assistance may shift some families away from formal care, it does not directly expand early learning capacity and could affect enrollment stability for private providers, particularly smaller or rural providers that rely on consistent participation to cover fixed costs.

Finally, the creation of a cash assistance program raises constitutional considerations under the Anti-Donation Clause of Article IX, Section 14 of the New Mexico Constitution. Courts have held that both refundable and non-refundable tax credits may violate the clause when they function as targeted subsidies rather than bargained-for exchanges. Because the program would require direct payments from the state, the constitutional analysis turns on whether the state receives sufficient consideration in exchange for the transfer. Anticipated public benefits alone are not sufficient to remove a transfer from the Anti-Donation Clause’s scope. It is unclear whether the program’s conditions would be deemed sufficiently contractual in nature or whether any enumerated exceptions would apply, and the bill could therefore be subject to constitutional scrutiny.

ADMINISTRATIVE IMPLICATIONS

HB304 requires ECECD to process applications for cash assistance and provide monthly payments, creating a steady stream of applications, verification tasks, and data management responsibilities resulting in a demand for new staffing. As noted above, ECECD estimates the agency will require 30 FTE at an annual cost of roughly \$2.5 million to manage the new cash assistance program.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB304 is closely related to House Bill 106, which creates a tax credit of up to \$12 thousand annually for the same population of parents with eligible dependent children.

TECHNICAL ISSUES

HB304 defines preschool-age child in a way that could be interpreted to include five year olds enrolled in kindergarten programs. If interpreted as such, the fiscal impact of the bill would increase.