

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0508-01
Bill No.: SB 161
Subject: Education, Elementary and Secondary; Education, Higher; Social Services
 Department; Health Department; Children and Minors
Type: Original
Date: January 29, 2007

Bill Summary: This proposal creates a quality rating system for child care facilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(Greater than \$950,711)	(Greater than \$2,557,122)	(Greater than \$4,029,040)
Total Estimated Net Effect on General Revenue Fund	(Greater than \$950,711)	(Greater than \$2,557,122)	(Greater than \$4,029,040)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Early Childhood Program Quality Improvement Grant	(Greater than \$412,622)	(Greater than \$141,101)	(Greater than \$145,335)
Total Estimated Net Effect on <u>Other</u> State Funds	(Greater than \$412,622)	(Greater than \$141,101)	(Greater than \$145,335)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	1 FTE	1 FTE	1 FTE
Early Childhood Program Quality Improvement Grant	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	4 FTE	4 FTE	4 FTE

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education, Missouri Senate, University of Missouri** and the **Missouri House of Representatives** each assume the proposal would have no fiscal impact on their respective agencies.

Officials from the **Department of Health and Senior Services (DHSS)** state the following:

Proposed Sections 210.205. 1. - 3. – Based on discussion with the Department of Social Services (DSS), all costs related to the development of the rating system will be included in the DSS fiscal notes response. DHSS assumes no cost to develop the rating system.

Proposed Section 210.205.4. - Requires DHSS to administer the newly created "Early Childhood Program Quality Improvement Grant Fund". The fund will include gifts, donations, transfers, bequests, and appropriated funds. The amounts of gifts, donations, transfers, bequests, or appropriations to the fund are unknown. The DHSS would use the money in the fund to provide grants to 1) providers who seek assistance in funding quality improvements to undergo evaluation under the quality rating system, and 2) community-based organizations assisting providers with quality improvements.

Expenses:

Given that the amount of revenue in the fund remains unknown, administrative costs to implement the grant program from the fund is unknown. If significant revenue becomes available, many childcare providers will be requesting grants to improve the quality of their facilities. DHSS assumes monies in the fund would be for grants to childcare providers and community-based organizations as well as covering all administrative costs incurred by the department in managing the program. Depending upon the amount of revenue that becomes available and the number of providers and community-based organizations that apply for grant funding, DHSS may need up to three (3) additional FTE to administer the program. These 3 staff include:

1. One Health Program Representative III would be needed to oversee the grant program. This individual would be responsible for developing and implementing policies and procedures related to awarding of grants, reviewing grant applications, assisting/answering questions from potential grant applicants, grantee monitoring, etc.

ASSUMPTION (continued)

2. One Senior Office Support Assistant would be needed for support functions such as tracking grant applications submitted, preparing grant-related correspondence and answering basic questions related to the grant program.

3. One Accountant II would be needed to track revenues going into the fund, estimating how many grants could be awarded on an annual basis, track the number of grants being requested and awarded, processing grant award payments, assisting the Health and Senior Services Manager with evaluation of grant requests and grantee monitoring, etc.

Since this is a new program, with a new funding source, it is difficult to determine with any degree of certainty how much activity will occur in this program. Due to the unknown timing and amount of revenues coming into the fund and the corresponding timing and need for staff, the financial impact for this proposed section is considered to be \$0 to unknown from the Early Childhood Program Quality Improvement Grant Fund. If the proposed legislation passes and is implemented for a period of time, it will be possible to better estimate both revenue and the possible demand for grant funding. Both factors will ultimately determine the number of staff needed to successfully implement this program.

Proposed Section 210.205.5 – DHSS assumes that since DSS will be developing the rating system, that Subsection (1) and (2) will be costs incurred by DSS. Subsection (3) requires that the provider ratings be posted on the internet. After discussions with DSS, DHSS will be responsible for posting this information on their website. Based on information received from OA ITSD, \$25,000 is included as an estimate of the cost to post this information on the DHSS internet site. It is assumed that this cost would be paid from General Revenue during FY 2008.

Proposed Section 210.205.6 – The department assumes that the costs related to any rule promulgation, such as staff time to draft rules, meet with interested parties, etc., would be absorbed by current staff within DRL.

Potential Future Costs – As stated above, implementation of this legislation might result in an increase in the number of licensed facilities with a corresponding increased inspection workload for the Bureau of Child Care. If such an increase were to occur, the program would ask for additional staff through the budget process at a later date.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the DHSS positions to correspond to the first step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Department of Social Services (DSS) - Children's Division** assumes this proposal charges the DSS and the Department of Health and Senior Services (DHSS), in collaboration with the Department of Elementary and Secondary Education, to establish a Quality Rating System (QRS) for child care programs. A target date of July 1, 2011 is set by which all child care programs in the state are to be rated. It charges the Coordinating Board for Early Childhood to establish a tiered system of reimbursement by the time 50% of all child care programs have been rated. Since DSS administers the child care subsidy system, the change to the Coordinating Board will also impact DSS.

The QRS model has already been developed and is currently being piloted across the state. To establish a statewide QRS basically means to take this pilot project to scale. We would propose contracting with the University of Missouri Columbia (UMC), in conjunction with the University of Missouri Kansas City (UMKC), to administer the ratings as UMC developed the Missouri QRS model. UMC and UMKC are currently administering the ratings of the pilot sites. They already have in place basic processes and systems to establish ratings. However, taking to scale would require additional staff and a more sophisticated process and system which are currently under development.

The QRS process would allow DSS to more strategically target current DSS child care provider training and technical assistance funding which includes:

- Educare which provides a variety of training and technical assistance options to child care providers,
- Resource and Referral funding which provides training coordination,
- Accreditation Facilitation funding which helps child care providers achieve accreditation, and
- Start Up/Expansion funding that assists in the start up of new child care programs and expansion of existing child care programs including very basic child care provider training and technical assistance.

ASSUMPTION (continued)

It will also provide a clearer mechanism to demonstrate outcomes of this training and technical assistance. Our assumption is that DSS will work with DHSS, who is charged with administering the Quality Improvement Fund established in this legislation, in order to prevent duplication and to identify and fill current gaps to assist child care providers in moving up the QRS ladder.

DSS will work with the Coordinating Board to revamp the current child care subsidy system to better support a QRS. There are many factors that can impact the cost of a revised subsidy system including revised parental sliding fees/co-payments, variances between QRS levels, etc.

Child Care providers will receive a rating from 1 to 5 stars (similar to restaurant and hotel rating systems) that will assist parents in identifying various levels of quality and thus be more informed consumers. Additional cost may be incurred by child care providers if they wish to move up the QRS ladder. Cost may include staff education and training, technical assistance, and physical plant upgrades.

The cost to reach 100% of the programs rated would extend beyond the estimated state fiscal impact listed in this fiscal note. The cost beginning FY '11 to rate 100% of the programs yearly is estimated at \$5,767,648. These costs are based on UMC estimates.

The cost for the rating system is based on estimates from the UMC. The proposed process increases the number of programs rated each year until FY '11 when 100% of the programs will be rated. The projected cost per year is:

<u>Year</u>	<u>Percentage</u> <u>Rated</u>	<u>Cost</u>
FY '08	10%	\$ 873,066
FY '09	40%	\$2,499,080
FY '10	70%	\$3,969,257
FY '11	100%	\$5,767,648

The cost for a tiered subsidy system is unknown at this time, but is anticipated to be several million dollars General Revenue. The current subsidy system will need to be revamped. Factors that may influence cost are adjustments to parental sliding fee/co-payment, actual cost variances between the various QRS levels, etc.

ASSUMPTION (continued)

Children's Division request one FTE for QRS UMC grant oversight, i.e. contract development, monitoring, reviewing reporting and outcome requirements and statistical data, liaison between DSS and grantee including coordination with other DSS programs, and payment of invoices. This FTE will also be the liaison with the Coordinating Board for Early Childhood in developing and implementing a tiered reimbursement system.

Officials from the **Office of the State Treasure (STO)** state this proposal requires the Department of Social Services, the Department of Health and Senior Services, and the Department of Elementary and Secondary Education to develop a rating system for child care facilities and early childhood programs operated in the state.

STO only ensures the disbursements are made from a lawful appropriation and don't exceed the amount of the appropriation. STO suggest the following wording change: "The state treasurer shall be custodian of the fund. In accordance with Sections 30.170 and 30.180 RSMo, the state treasurer may approve disbursements"

If the wording isn't changed, STO would need an FTE (Accounting Specialist I - \$39,324 plus \$17,762 fringe = \$57,086) to monitor these disbursements (this will be allocated proportionately as a retention of interest earnings on state funds in accordance with Section 30.605 RSMo).

Oversight assumes the STO could absorb one FTE.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Costs - Department of Social Services</u>			
Personal Services	(\$30,713)	(\$37,976)	(\$39,115)
Fringe Benefits	(\$13,901)	(\$17,188)	(\$17,704)
Equipment and Expense	(\$8,031)	(\$2,878)	(\$2,964)
Program Costs	<u>(Greater than \$873,066)</u>	<u>(Greater than \$2,499,080)</u>	<u>(Greater than \$3,969,257)</u>
<u>Total Costs - DOS</u>	<u>(Greater than \$925,711)</u>	<u>(Greater than \$2,557,122)</u>	<u>(Greater than \$4,029,040)</u>
FTE Change - DOS	1 FTE	1 FTE	1 FTE
<u>Costs - Department of Health and Senior Services</u>			
Post Information on Internet Site (Section 210.205.5 RSMo)	(\$25,000)	\$0	\$0
<u>Total Costs - DHSS</u>	<u>(\$25,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Greater than \$950,711)</u>	<u>(Greater than \$2,557,122)</u>	<u>(Greater than \$4,029,040)</u>
Estimated Net FTE Change for General Revenue Fund	1 FTE	1 FTE	1 FTE

**EARLY CHILDHOOD PROGRAM
 QUALITY IMPROVEMENT GRANT
 FUND**

Costs - Department of Health and Senior
 Services

Personal Services	(\$78,074)	(\$96,499)	(\$99,394)
Fringe Benefits	(\$35,336)	(\$43,675)	(\$44,986)
Equipment and Expense	(\$29,212)	(\$927)	(\$955)
Program Costs - Quality Rating System	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Total Costs - DHSS</u>	<u>(Greater than</u> <u>\$142,622)</u>	<u>(Greater than</u> <u>\$141,101)</u>	<u>(Greater than</u> <u>\$145,335)</u>
FTE Change - DHSS	3 FTE	3 FTE	3 FTE

**ESTIMATED NET EFFECT ON
 EARLY CHILDHOOD PROGRAM
 QUALITY IMPROVEMENT GRANT
 FUND**

**(Greater than
\$142,622) **(Greater than
\$141,101) **(Greater than
\$145,335)******

Estimated Net FTE Change for Early
 Childhood Program Quality Improvement
 Grant Fund

3 FTE 3 FTE 3 FTE

FISCAL IMPACT - Local Government

FY 2008 FY 2009 FY 2010
 (10 Mo.)

\$0 \$0 \$0

FISCAL IMPACT - Small Business

Child care providers may incur cost for quality improvements in order to achieve their desired level of quality rating.

FISCAL DESCRIPTION

This legislation requires the Departments of Social Services and the Department of Health and Senior Services, in collaboration with the Department of Elementary and Secondary Education, to develop by July 1, 2008, a quality rating system for child care facilities and early childhood programs operating in this state. The licensing of such facilities shall be the baseline, while the highest rating is accreditation. The departments shall utilize the model from the existing Missouri quality rating system pilots developed by the University of Missouri Center for Family Policy and Research to establish the system. The system will allow consumers and parents to evaluate and select high quality early childhood programs and creates a system of accountability for policymakers and those who fund early childhood programs.

By July 1, 2011, one hundred percent of all the child care facilities and early childhood programs shall be rated using the quality rating system established under this legislation. When fifty percent of all such facilities have been so rated, the Coordinating Board of Early Childhood shall have developed a plan for a tiered system of reimbursement for child care subsidies based on the quality rating system established under this legislation. The plan shall be submitted to the General Assembly with recommendations for implementation of the reimbursement system.

The Early Childhood Program Quality Improvement Grant Fund is established and shall consist of all gifts, donations, transfers, moneys appropriated by the general assembly, and bequests to the fund. Money in the fund shall be used to provide grants directly to child care or early childhood providers seeking assistance for quality improvements to undergo evaluation under the quality rating system established under this legislation or to community-based organizations assisting providers with such improvements.

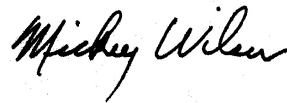
The Departments of Social Services and the Department of Health and Senior Services shall be responsible for promoting and distributing materials to educate the public and providers about the quality rating system established under this legislation. By January 1, 2009, the ratings of the quality rating system shall be posted on the internet in a format easily understood and accessible by the public.

This legislation shall sunset in six years.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Missouri Senate
Missouri House of Representatives
Department of Health and Senior Services
University of Missouri
Department of Social Services
Office of the State Treasure



Mickey Wilson, CPA
Director
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