

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0508-02  
Bill No.: SCS for SB 161  
Subject: Education, Elementary and Secondary; Education, Higher; Social Services  
 Department; Health Department; Children and Minors  
Type: Original  
Date: February 12, 2007

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(Greater than \$1,103,355)	(Greater than \$1,849,993)	(Greater than \$2,491,641)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Greater than \$1,103,355)</b>	<b>(Greater than \$1,849,993)</b>	<b>(Greater than \$2,491,641)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Early Childhood Program Quality Improvement Grant	\$0	(\$3,917,500)	(\$6,263,500)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>(\$3,917,500)</b>	<b>(\$6,263,500)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
 This fiscal note contains 11 pages.

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
General Revenue	2 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>

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).

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

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **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 Mental Health (DMH)** assume the only responsibility of the DMH is to cooperate in developing the quality rating system. It is assumed DMH responsibilities will be accomplished with existing staff. No fiscal Impact to the Department of Mental Health.

Officials from the **Department of Elementary and Secondary Education** state the department could incur costs associated with this proposal, depending upon the extent to which the department becomes involved with collecting and distributing resource materials, developing and distributing educational materials, and posting the ratings of the quality rating system on the Internet. These costs are unknown as we cannot determine at what level the department will be involved; however, the costs could be significant.

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. The Division assumes that any collaboration between the DHSS and the DSS required by the bill would be accomplished with existing staff and resources. DHSS assumes no cost to develop the rating system.

Proposed Section 210.205.4. - Requires DSS to administer the newly created "Early Childhood Program Quality Improvement Grant Fund". The DHSS assumes no cost related to this fund.

Proposed Section 210.205.5 – Based on discussion with DSS, their costs related to developing the rating system will include the costs of collection, development and distribution in (1) and (2). Subsection (3) requires that the provider ratings be posted on the Internet. 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 bill requires DSS to promulgate rules. The DHSS assumes no cost related to rules.

ASSUMPTION (continued)

Potential Future Costs – 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.

Officials from the **Department of Social Services (DSS) - Children's Division** assumes this proposal makes DSS the lead on this legislation working in collaboration with the Department of Health and Senior Services (DHSS), Department of Elementary and Secondary Education (DESE), (and adds the Department of Mental Health (DMH) as a collaborator), to establish a Quality Rating System (QRS) for child care programs with a target of July 1, 2014, (as opposed to July 1, 2011, as stated in the original bill) to have all child care programs in the state rated. It charges the Coordinating Board for Early Childhood to establish a tiered subsidy system by July 1, 2014 (as opposed to the language in the original bill which charged that the tiered subsidy system be established by the time 50% of all child care programs have been rated). Since DSS administers the subsidy system, the charge 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. This SCS also charges DSS with the administration of the Quality Improvement Fund (as opposed to the original bill which charged DHSS with that responsibility). 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 in coordination with DESE, DHSS, and DMH in the administration of this fund.

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 for the rating system is based on estimates from the UMC. The proposed process increases the number of programs rated each year until FY '14 when 100% of the programs will be rated. The improvement fund calculation has been broken out as it is subject to appropriation. The projected cost per year is:

Year	Percentage Rated	QRS	Improvement Fund	Total Cost
FY 08	10%	\$ 873,066	\$0	\$ 873,066
FY 09	25%	\$1,633,910	\$3,917,500	\$ 5,551,410
FY 10	40%	\$2,272,075	\$6,263,500	\$ 8,535,575
FY 11	55%	\$3,184,444	\$9,001,135	\$12,185,579
FY 12	70%	\$4,134,889	\$9,001,135	\$13,136,024
FY 13	85%	\$5,129,066	\$9,001,135	\$14,130,201
FY 14	100%	\$6,168,936	\$9,001,135	\$15,170,071

The cost for a tiered subsidy system is unknown at this time, but is anticipated to be several million dollars. 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, income eligibility level increases, 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, providing technical assistance to grantee, 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.

While this proposal establishes, but does not fund the Quality Improvement Fund, if funding is appropriated, there will be a need for an additional FTE, to administer this fund program, i.e. develop a request for proposal process, establish and monitor contracts, review reporting and outcome requirements and statistical data, serve as the liaison between DSS and the grantees including coordination with other DSS programs, providing technical assistance to grantees, and payment of invoices.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the DSS 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) - Information Technology Services Division (ITSD)** assume system changes would be required in the SACWIS and FAMIS systems to recalculate rates based on facility quality ratings. The rates are currently based on facility type, ages of the children that day care is provided for. The rate tables would have to be adjusted to look at those factors as well as the facility rating.

DSS Children's Division staff are assuming that the rating system, the accountability system and publication of the ratings on the internet will be created and maintained by the University of Missouri, Columbia. Department of Social Services maintains rate tables in the legacy Children's Division system for protective services day care and in FAMIS for all other day care. Programming and analysis staff on the two projects estimate cost to be unknown but in excess of \$100,000.

Assumptions:

- Create database to store child care facilities and their ratings. Assume that MU will transmit a file on a regular basis with this data to load the database.  
160 hours of labor performed in-house by DBA team and one applications programmer.

ASSUMPTION (continued)

- Development costs through system development lifecycle to incorporate facility ratings in child care rate calculations along with other parameters currently used to calculate rates (e.g. age of children, facility type, etc.) are unknown. Typical number of hours to develop a program is around 160 on the FAMIS project. Programming staff indicate that more than 700 hours of labor in SACWIS and in FAMIS would be required based on the 160 hour per module benchmark.

Contract staff cost \$75.00 per hour for applications development and this project would require an unknown amount of labor in excess of 1,400 hours which exceeds \$100,000.

Officials from the **Department of Social Services (DSS) - Division of Budget and Finance (DBF)** state DBF will be responsible for monitoring the fund balance and would accomplish this with existing resources. Program and efficiencies implementation would be the responsibility of the DSS - Children's Division, Department of Health and Senior Services, Department of Elementary and Secondary Education, and Department of Mental Health. This proposal would have little direct impact on the Division of Budget and Finance. Therefore, a zero impact fiscal note is being submitted.

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
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**GENERAL REVENUE FUND**

Costs - Department of Elementary and Secondary Education

Program Costs	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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Costs - Department of Social Services

Personal Services	(\$61,425)	(\$75,952)	(\$78,231)
Fringe Benefits	(\$27,801)	(\$34,376)	(\$35,407)
Equipment and Expense	(\$16,063)	(\$5,755)	(\$5,928)
Program Costs (Children's Division)	(Greater than \$873,066)	(Greater than \$1,633,910)	(Greater than \$2,272,075)
Program Costs (ITSD)	<u>(Greater than \$100,000)</u>	<u>(Greater than \$100,000)</u>	<u>(Greater than \$100,000)</u>

<u>Total Costs - DOS</u>	<u>(Greater than \$1,078,355)</u>	<u>(Greater than \$1,849,993)</u>	<u>(Greater than \$2,491,641)</u>
FTE Change - DOS	2 FTE	2 FTE	2 FTE

Costs - Department of Health and Senior Services

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>

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(Greater than \$1,103,355)</u></b>	<b><u>(Greater than \$1,849,993)</u></b>	<b><u>(Greater than \$2,491,641)</u></b>
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Estimated Net FTE Change for General Revenue Fund	2 FTE	2 FTE	2 FTE
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**EARLY CHILDHOOD PROGRAM  
 QUALITY IMPROVEMENT GRANT  
 FUND**

<u>Costs</u> - Department of Social Services			
Program Costs	<u>\$0</u>	<u>(\$3,917,500)</u>	<u>(\$6,263,500)</u>

<b>ESTIMATED NET EFFECT ON    EARLY CHILDHOOD PROGRAM    QUALITY IMPROVEMENT GRANT    FUND</b>	<b><u>\$0</u></b>	<b><u>(\$3,917,500)</u></b>	<b><u>(\$6,263,500)</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Child care providers and before- and after-school programs 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 in collaboration with the Department of Health and Senior Services, Elementary and Secondary Education, and Mental Health to develop by September 1, 2007, a quality rating system for licensed child care facilities, early childhood, and before-and after-school programs operating in this state. The licensing of such facilities shall be the baseline, while the highest rating including 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 programs and creates a system of accountability for policymakers and those who fund such programs.

By July 1, 2014, one hundred percent of all licensed child care facilities shall be rated using the quality rating system established under this legislation. The Coordinating Board of Early Childhood shall 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, to begin July 1, 2009.

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 licensed 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.

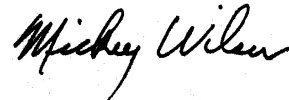
The Departments of Social Services in collaboration with the departments of Health and Senior Services, and Elementary and Secondary Education shall be responsible for promoting and distributing materials to educate the public and providers about the quality rating system established under this legislation. 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  
Department of Mental Health



Mickey Wilson, CPA  
Director  
February 12, 2007