

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3388-08
Bill No.: HCS for SS for SCS for SB 726
Subject: Education, Elementary and Secondary; Education, Higher; Socials Services
Department; Health Department; Children and Minors
Type: Original
Date: May 13, 2008

Bill Summary: This legislation modifies the requirement for payment of child care subsidy benefits.

This legislation creates a quality rating system for child care facilities, exempts certain neighborhood youth development programs from state child care licensing requirements and establishes the Missouri Preschool Plus Grant Program.

The provisions relating to the quality rating system will sunset in six years. Also, the provisions relating to the preschool plus grant program will sunset, if not reauthorized, in six years.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(Up to \$32,687,155)	(Up to \$37,612,473)	(Up to \$41,562,018)
Total Estimated Net Effect on General Revenue Fund	(Up to \$32,687,155)	(Up to \$37,612,473)	(Up to \$41,562,018)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on FTE	0	0	0

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 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS _____

ASSUMPTION

Officials from the **Office of the Missouri Senate** and the **Office of the State Treasurer** each assume the proposal would have no fiscal impact on their respective agencies.

In response to a previous version of this proposal, officials from the **University of Missouri** and the **Office of 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 this proposed legislation places no requirements upon the DMH, other than collaborating with the Department of Social Services and the Department of Elementary and Secondary Education. DMH collaborates with other state agencies in many areas; therefore, there should be no significant cost to the DMH associated with this bill.

In response to a previous version of this proposal, officials from the **Department of Elementary and Secondary Education (DESE)** state the following:

Section 210.205:

DESE is to work in collaboration with the Department of Social Services, the Department of Health and Senior Services and the Department of Mental Health to develop a voluntary quality rating system for child care facilities and early childhood programs operated in this state. DESE anticipates cost relating to travel, employee time, and resource materials; however, DESE does not expect these costs to be significant.

Section 162.1168:

Per the terms of the proposal, the General Assembly shall appropriate five million dollars in any fiscal year to fund the provisions of this section.

Based on historical costs associated with the Missouri Preschool Program, DESE estimates \$150,000 for the first year of a brand new preschool classroom of 20 students with one teacher and \$120,000 for subsequent years. Limiting the appropriation to \$5,000,000 per year could limit the amount of children served per year; therefore, the program may not capably serve up to one thousand two hundred and fifty students as called for in the proposal.

ASSUMPTION (continued)

Officials from the **Department of Health and Senior Services (DHSS)** assume 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 of Regulation and Licensure (DRL) assumes that any collaboration between the DHSS and the DSS required by the proposal would be accomplished with existing staff and resources. DHSS assumes no cost to develop the rating system.

Proposed Section 210.205.4:

The proposal 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 Subsection (1) and (2). Subsection (3) requires that the provider ratings be posted on the Internet. Based on information received from the Office of Administration-Information Technology Services Division, \$50,000 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 2009.

Proposed Section 210.205.6:

The proposal requires DSS to promulgate rules. The DHSS assumes no cost related to rules.

Proposed Section 210.278:

The proposal exempts neighborhood youth development programs from child care licensing provisions in Chapter 210 if the program meets certain requirements. One of those requirements is that they screen all employees and volunteers through the Family Care Safety Registry (FCSR).

Potential Future Costs:

Implementation of this proposal might result in an increase in the number of licensed facilities with a corresponding increased inspection workload for the Section for Child Care Regulation. If such an increase were to occur, the program would ask for additional staff through the budget process at a later date.

The increased demand for required annual training hours for licensed providers has the potential to exceed the current training capacity of the Missouri Child Care Resource and Referral Network (MOCCRRN). If such an increase were to occur, the program would ask for additional funding through the budget process at a later date.

ASSUMPTION (continued)

Officials from the **Department of Social Services** (DSS) states the following:

Quality Rating System & Quality Improvement Funds:

DSS assumes the proposal requires DSS to utilize the model from the existing Missouri Quality Rating System pilots developed by the University of Missouri Center of Family Policy and Research. Therefore, the Children's Division (CD) provided its estimate of costs for this fiscal note based largely on estimates prepared by the University of Missouri.

The UMC estimates are based on an ongoing process that increases the number of programs rated each year until FY 13 when 70% of the providers would be rated. FY 14 and FY 15 costs are shown if, hypothetically, all facilities were to be rated. That schedule is shown below:

<u>Year</u>	<u>Percent Rated</u>	<u>QRS</u>	<u>Improvement Fund (Optional)</u>	<u>Total Cost</u>
FY 09	10%	\$780,228	\$0	\$780,228
FY 10	25%	\$1,397,575	\$0 to \$2,250,000	\$1,397,575 to \$3,647,575
FY 11	40%	\$1,890,891	\$0 to \$3,600,000	\$1,890,891 to \$5,490,891
FY 12	55%	\$2,663,048	\$0 to \$4,950,000	\$2,663,048 to \$7,613,048
FY 13	70%	\$3,454,020	\$0 to \$6,300,000	\$3,454,020 to \$9,754,020
FY 14	85%	\$4,321,489	\$0 to \$7,650,000	\$4,321,489 - \$11,971,489
FY 15	100%	\$5,257,261	\$0 to \$9,000,000	\$5,257,261 - \$16,650,000

While it's reasonable to assume that as long as this is a voluntary system, that the best estimate of the percentage of providers that will choose to be rated will be approximately 70%, the projections for FY 14 and FY 15 are for illustrative purposes only and assume the most extreme scenario that all 100% of providers will choose to be rated.

By July 1, 2011, all licensed facilities receiving quality improvement funds or services shall be rated using the quality rating system. CD assumes that these facilities will be rated in the first three years.

Because this proposal establishes, but does not fund, the Quality Rating System Program Improvement Grant Fund CD is showing the proposed funding for this part of the program as optional and as a range.

ASSUMPTION (continued)

Tiered Reimbursement System:

No cost is shown for the tiered reimbursement system. A change in the wording of the committee substitute requires only that recommendations for a reimbursement system be submitted by December 31, 2009, but the plan cannot be implemented unless the General Assembly passes a concurrent resolution. Therefore, no cost is shown.

Enhanced Eligibility to 160% of FPL:

Federal guidelines allow states to establish eligibility guidelines up to 85% of the state median income level. Missouri's income eligibility is currently set at approximately 41% of the state median income level, which equates to 127% of FPL for a family of four.

The program's income eligibility guidelines decline at a proportionate rate when the FPL is adjusted in February of each year.

This proposal affects only those families whose eligibility is based on need and income. Children who are in Alternative Care and Adoption Subsidy programs will not be affected.

To calculate the increase from 127% to 160%, the CD divided the additional eligibles into the following groups:

- A) Recipients up to 127%. These individuals would receive full benefits.
- B) Expanded group - individuals with income between 128% and 160% of the FPL. These individuals would have to pay a higher sliding fee.
- C) Transitional group - individuals currently receiving child care whose income increases above 160% of the FPL.

Assumptions used to calculate/estimate the fiscal impact for the groups.

- This estimate/methodology is based on the eligibility limit of a family of four whose yearly household income can not exceed 127% of the FPL.
- Every year, in the early part of the Calendar Year (CY) the Federal Poverty Limit is adjusted upwards.
- The cost to increase eligibility per percentage points is based on eligibility increases the past few years. The average cost per percentage point incurred by these increases was \$580,000. However, at some point there will be a substantial increase in the cost per percentage point. The exact level at which the cost will increase is unknown. For this fiscal note, the Children's Division is using \$580,000 per percentage point increase.

ASSUMPTION (continued)

- For every \$1 increase in the sliding fee, the amount to increase eligibility per percentage point is reduced by 10%. Therefore, to increase eligibility along with the \$1 sliding fee increase will result in a cost of \$522,000 per percentage point increase in eligibility. ($\$580,000 - (\$580,000 \times 10\%)$) A \$2 increase in sliding fee would result in 20% reduction in the cost per percentage point eligibility increase resulting in a cost of \$464,000. ($\$580,000 - (\$580,000 \times 20\%)$)
- A). Additional recipients due to increasing the eligibility level to 160% with full benefits
- Recipients up to 127%
 - Based on previous increases, the cost to maintain income guidelines at 127% (for a family of four) is \$2,134,639.
 - DSS is projecting that to increase from 128% to 140% of the FPL with an additional \$1 per day sliding fee (an increase from \$5 to \$6), the cost to increase per percentage point will be approximately \$6,786,000 ($\$522,000 \text{ times } 13 \text{ percentage points} = \$6,786,000$).
 - DSS is projecting that to increase from 141% to 160% of the FPL with an additional \$2 per day sliding fee (an increase from \$5 to \$7), the cost to increase per percentage point will be approximately \$8,816,000 ($\$464,000 \text{ times } 19 \text{ percentage points} = \$8,816,000$).
 - Projected fiscal impact for this group is \$26,657,278. The legislation requires full implementation by July 1, 2012, therefore the Division is providing a fiscal impact in the form of a range from \$0 to \$26,657,278 for 160% of the FPL.
- B). Transitional group- individuals currently receiving child care whose income increases and puts them in excess of 160% of the FPL.

This legislation does not provide provisions on how the Division would implement transitional benefits for incomes exceeding 160% of the FPL nor does it cap income levels that would be eligible to receive the transitional benefits. Therefore, the cost to provide transitional benefits to individuals currently receiving child care would be at the discretion of the division and subject to appropriation therefore the amount including administrative costs is unknown.

Additionally, every year the federal poverty guidelines are increased. Based on previous years, it will cost approximately \$2,100,000 million to maintain the guidelines at these levels.

ASSUMPTION (continued)

QRS FTE and Additional Staffing/Contract Needs:

CD anticipates the need for one Program Development Specialist. The PDS would be responsible for UMC grant oversight; be the liaison with the Coordinating Board for Early Childhood to develop and implement the tiered reimbursement system; and ultimately be responsible for administering the Quality Rating System Program Improvement Grant Fund, if funds are appropriated.

This proposal would increase the level of eligibility up to 160% and in excess of 160% for transitional benefits, which is 10% over the current plan being submitted in the budget. This eligibility change will impact an additional 1,240 children. DSS will use a variety of methods to manage the new caseload, such as contracted services and technological improvements. To project a cost to implement these methods FSD is using the cost of staff to manage the caseload. However, the funding will be used to implement new methods to manage the increase in caseload.

Based on the current caseload standard of 220 for Child Care for Eligibility Specialists, this will result in a need of an additional funding to be utilized as E&E to fund automated methods of handling the new caseload. \$140,987 in FY09, \$144,928 in FY10 and \$149,276 in FY11.

This proposal would create a separate fund for federal money received for the child care block grant called the "Child Care and Development Fund". The state treasurer would be the custodian of the fund. There would be no fiscal impact to the Division.

The total cost to raise eligibility to 140% FPL (185% FPL for those already receiving services) is \$23,737,139 in FY 10 and \$25,837,139 in FY 11.

The transitional group from 140% to 160% FPL would receive 75% of the full benefit; from 161% to 185% FPL the benefit level would be 50%.

Since this eligibility change would impact an additional 4,340 children, there will be an impact on FSD staffing needs. In lieu of new FTE, FSD will explore enhanced efficiencies and technology. The funding requirement shown in the fiscal note is \$774,838 in FY 10 and \$683,790 in FY 11, which equates to the cost of 11 eligibility specialists, one supervisor, and 2 clerical staff.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Costs - Department of Elementary and Secondary Education</u>			
Missouri Preschool Plus Grant Program	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)
<u>Costs - Department of Health and Senior Services</u>			
Post Information on Internet Site	(\$50,000)	\$0	\$0
<u>Costs - Department of Social Services</u>			
Program Costs-QRS	(\$780,228)	(\$1,397,575)	(\$1,890,891)
Program Costs-QRS Program Improvement Grant Fund	\$0	(Unknown but Less than \$2,250,000)	(Unknown but Less than \$3,600,000)
Program Costs-Eligibility to 160%	(Up to \$26,657,278)	(Up to \$28,757,278)	(Up to \$30,857,278)
Program Costs-Caseload Increase	(\$199,649)	(\$207,620)	(\$213,849)
Total Costs - DSS	<u>(Up to \$27,637,155)</u>	<u>(Up to \$32,612,473)</u>	<u>(Up to \$36,562,018)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Up to \$32,687,155)</u>	<u>(Up to \$37,612,473)</u>	<u>(Up to \$41,562,018)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Childcare providers may incur costs for quality improvements in order to achieve their desired level of quality rating. Neighborhood youth development programs could incur the cost of registering employees/volunteers with the Department of Health and Senior Services, Family Care Safety Registry.

FISCAL DESCRIPTION

CHILD CARE SUBSIDY BENEFITS:

By July 1, 2012 the proposed legislation requires the Children's Division within the Department of Social Services to modify the income eligibility criteria for receiving financial assistance for child care by allowing families with an income below 160% of the federal poverty level to receive subsidy benefits, subject to appropriations. The benefits will be distributed on a sliding scale based on family size and income. The Division may waive the sliding scale fee for children with special needs and may establish procedures to assist families with incomes more than 160% of the federal poverty level in transitioning off of state assistance. If annual appropriations are not sufficient to cover all eligible families, the Division may establish a waiting list and rules for the prioritizing of eligible recipients on the waiting list.

The Child Care and Development Fund is created which will consist of moneys received from the federal Child Care and Development Block Grant Program. Upon appropriation, moneys in the fund will be used by the Department only within the guidelines of the federal program. Any moneys remaining in the fund at the end of the biennium will not revert to the General Revenue Fund.

QUALITY RATING SYSTEM:

This legislation requires the Department of Social Services in collaboration with the Departments of Health and Senior Services, Elementary and Secondary Education, and Mental Health to develop by September 1, 2008, a quality rating system for early childhood and before-and after-school programs licensed by the Department of Health and Senior Services that operate in this state. The licensing of such facilities shall be the baseline, while the highest rating includes accreditation. All early childhood programs accredited by the Nation Association for the Education of Young Children shall receive the highest level of the rating system. 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.

FISCAL DESCRIPTION (continued)

By July 1, 2011, all licensed child care facilities voluntarily receiving quality improvement funds and services shall, upon the facilities' request, be rated using the quality rating system established under this legislation. The Coordinating Board of Early Childhood shall develop a plan for a tiered system of reimbursement for child care subsidies based on the quality rating system established under this legislation. The proposed plan shall be submitted to the General Assembly with recommendations for implementation of the reimbursement system by December 31, 2009. The plan shall only become effective upon passage of a concurrent resolution by the General Assembly authorizing the implementation of the plan.

The Quality Rating System Program 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 grants shall be awarded in such a manner to ensure geographic diversity among the grantees.

The Department 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, 2010, the ratings of the quality rating system shall be posted on the Internet in a format easily understood and accessible by the public.

The provisions relating to the quality rating system shall sunset in six years.

NEIGHBORHOOD YOUTH DEVELOPMENT:

In addition, certain neighborhood youth development programs shall be exempt from state child care licensing requirements so long as the program meets specified standards and guidelines as prescribed in the legislation.

MISSOURI PRESCHOOL PLUS GRANT PROGRAM:

The legislation creates the Missouri Preschool Plus Grant Program as a pilot program within the Missouri Preschool Project. The program will serve up to 1,250 students with preschool services and will be administered by the Department of Elementary and Secondary Education in collaboration with the Coordinating Board for Early Childhood. School districts that are classified as unaccredited and non-sectarian community-based organizations located within such school districts may receive grants. Any school district that receives students from a provisionally accredited or unaccredited school district as a result of a school district boundary

FISCAL DESCRIPTION (continued)

MISSOURI PRESCHOOL PLUS GRANT PROGRAM (continued):

line change election, as provided in section 162.431, may also receive grants. Grants run for three years and are renewable. At least fifty percent of the placements must be offered through non-sectarian community-based organizations. Children who are one or two years away from kindergarten entry may participate in the program. Children of active duty military personnel will receive admission preference.

If a school district becomes classified as provisionally accredited or accredited, it may complete the length of an existing grant and be eligible for one additional renewal for three years. The program must comply with current early childhood standards. Community-based organization grantees may employ teachers with at least an associate's degree provided they show they are on the path to obtaining a bachelor's degree within five years. School districts and non-sectarian community-based organizations must collect short-term and long-term data about student performance where feasible. The Department must make a good faith effort to collect long-term student performance data as required in the legislation for students who attend non-public schools.

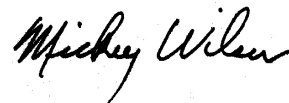
The Department will accept applications in a competitive bid process to begin implementing the program in the 2009-2010 school year. The program will be funded through general appropriations and will not be funded through money from the Gaming Commission Fund. The General Assembly must appropriate an amount sufficient to adequately fund the program, an amount of \$5 million in any fiscal year.

The provisions relating to the preschool plus grant program will sunset, if not reauthorized, 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
Department of Mental Health
Department of Health and Senior Services
Office of the Missouri House of Representatives
Office of the Missouri Senate
University of Missouri
Office of the State Treasurer
Department of Social Services



Mickey Wilson, CPA
Director
March 13, 2008