

Revised on 5/23/13 to reflect amendments adopted through 5/22/13.

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2013-14		FY 2014-15	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$1,221,004		\$3,120,820	
CASH FUNDS				
FEDERAL FUNDS	\$9,612		\$19,223	
OTHER FUNDS				
TOTAL FUNDS	\$1,230,616		\$3,140,043	

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 507 is the Step Up to Quality Child Care Act. The bill requires the State Department of Education (NDE) and the Department of Health and Human Services (HHS) to develop, implement and provide oversight for a quality rating and improvement system for child care and early childhood education programs.

The bill requires the two agencies to collaboratively create a system of incentives and support as part of the system including, tiered child care subsidy reimbursements, incentive bonuses and other incentives. The departments are also to work collaboratively to provide professional development, training, and postsecondary education opportunities for participating staff and directors, support to expand family engagement and understanding of quality early childhood education, and other support as necessary to carry out the intent of the act.

The quality rating and improvement system must be functional by July 1, 2014 because mandatory participation in the system is required on that date for applicable child care and early childhood education programs that received over \$500,000 in child care assistance for FY2011-12. On July 1, 2015 programs that received over \$250,000 in FY12 are required to participate and beginning on July 1, 2016, programs that received over \$250,000 in the preceding fiscal year must participate. Participants may apply to have their rating level reviewed once annually. Programs rated at steps 2 – 4 are to be reevaluated at least once every two years and those at step 5 are to be reevaluated at least once every five years.

NDE is to create the Nebraska Early Childhood Professional Record System by March 1, 2014 to track and verify degrees and credentials of child care and early childhood education professionals. HHS is to make quality ratings developed pursuant to the act available on a publically accessible web site beginning in 2017.

HHS may reimburse child care providers that are participants in the quality rating system at higher rates based upon a program's quality scale rating. Participants receiving reimbursements from the federal Child Care Subsidy program may be provided tiered rates based upon the quality rating of the program under the act. The bill also increases the income eligibility rates for child care subsidies. The increase in rates has a general fund fiscal impact because the state has maximized the usage of federal funds.

Staffing & Operating Expenditures: NDE projects the need for a program administrator, education specialist and program associate in FY14. In the second year of implementation, FY15, the department estimates the need for an additional education specialist and two program associates. The fiscal impact for 3.0 FTE and related operating, travel and capital outlay expenses is \$268,063 of general funds in FY14 and for 6.0 FTE in FY15 is \$530,851 of general funds. The staff will be responsible for administration of the program, program portfolio verification, program evaluation, data systems, technical assistance and contracting for necessary services.

HHS will have increased expenditures for the web site that is required to display ratings of child care and early childhood programs beginning in 2017. The agency will also need to work collaboratively with NDE on the rating system and distribute subsidies to child care providers. The department projects the need for one administrator to oversee the program. The person will be needed for six months of FY14 at a cost of \$60,072 (\$50,460 GF, \$9,612 F) and on a full-time basis in FY15 and thereafter at a cost of \$120,144 (\$100,921 G, \$19,223 F).

Public Awareness: NDE projects expenditures of \$95,000 in FY14 and \$120,000 in FY15 for public awareness of the rating system. This fiscal note assumes \$75,000 in FY14 and \$50,000 each year thereafter.

Technical Assistance/Training: NDE estimates training and professional development costs of \$146,700 in FY14 and \$383,400 in FY15. These costs would be for activities such as helping early childhood providers understand the new rating system, upgrading their skills and programs, and understanding program quality standards.

Technical assistance will be provided by NDE staff to early childhood programs which opt to participate in the rating system or are considering participation. NDE estimates \$200,000 of expenditures for technical assistance in FY14 and \$369,000 in FY15. This fiscal note assumes technical assistance/training funding of \$250,000 in the initial year and \$350,000 thereafter.

Quality Rating & Improvement System and Nebraska Early Childhood Professional Record System: A quality rating and improvement system is to be developed in FY14 and implemented beginning in FY15. NDE estimates the cost of the system to be \$129,242 in FY14 and \$348,195 in FY15. Additional costs are projected for an annual evaluation of the quality rating system. It is assumed that evaluation costs will be about \$50,000 per year. NDE indicates that private funding will be available to complete an evaluation.

There will also be ongoing data systems costs and support to maintain the rating system and create the Early Childhood Professional Record System. Data systems and support expenses are estimated to be \$150,000 per year.

Scholarships: The bill requires the provision of scholarships for participating program staff and directors. The funding will supplement about \$400,000 of federal funds (TEACH program) currently available to help persons working in the field of early childhood education obtain an associate or bachelor's degree. This fiscal note assumes \$100,000 of general funds will be available on an annual basis as aid for scholarships beginning in FY15.

Incentives: LB 507 requires NDE and HHS to work collaboratively to create a system of incentives to improve the quality of child care and early education programs. Estimated expenditures for incentives are as follows:

Tiered Child Care Subsidies: Tiered child care subsidies will be available from HHS for programs required to participate in the quality rating and improvement system. Mandatory participation in the system is required on July 1, 2014 for child care and early childhood education programs which received over \$500,000 in child care assistance for FY2011-12. On July 1, 2015 programs that received over \$250,000 in FY12 are required to participate and beginning on July 1, 2016, programs that received over \$250,000 in the preceding fiscal year must participate.

Based upon the amount of child care subsidies received, 16 child care programs will be required to participate in the rating system beginning in FY2014-15 and an additional 46 child care programs will be required to participate in FY2015-16. There may be a few additional programs in FY17 or the number may remain the same in that year if providers do not cross the \$250,000 threshold. There also may be an estimated 98 child care or early childhood programs voluntarily participating in the system beginning in FY15 and close to 150 programs in FY16. It is assumed the subsidy for programs which voluntarily participate in the rating system will be less than that provided to programs which are mandated to participate.

The bill provides for tiered child care subsidies to be available when a program reaches step three of the rating system. It is assumed the child care programs required to participate in the rating system will initially be rated at step one. The bill does not define the amount of subsidy received for moving up a step in the rating system. Assuming the subsidy rate increases by 4% for each step, then estimated tiered child care subsidies will be about \$87,100 in FY16, \$587,480 in FY17 and over \$1 million in FY18. Note that this estimate could vary considerably depending upon the number of programs participating in the rating system, the amount of the subsidy, and the movement of programs on the quality rating scale.

Step Incentive Bonuses: Incentive bonuses are to be given to child care and early childhood education programs when the programs complete specific requirements of step two ratings or higher to improve quality. Assuming 2% of licensed programs voluntarily participate in the rating program in FY15 and an additional 5% participate in FY16 and half of the programs improve quality in the initial year, then \$26,700 of incentives will be allocated in FY15 and \$69,000 of incentives will be allocated to providers in FY16 and FY17. It is assumed that NDE will allocate aid for step incentive bonuses.

Child Care Subsidies: This bill, as amended, increases the income eligibility requirements from 120% of federal poverty guidelines to 125% in FY 14 and to 130% in FY 15 for families qualifying for the Child Care Subsidy Program. An increase in eligibility to 125% of federal poverty guidelines increases the number on the subsidy by an estimated 173 children in FY 14. The increase to 130% adds an additional 173 children in FY 15. The average monthly cost for the Low-Income Sliding Fee group is \$413 a month. The total cost will be \$857,077 in FY14 and \$1,714,153 in FY 15. The federal Child Care Block Grant is a capped amount which is fully utilized. All additional costs for the increased subsidies in the bill are from General Funds.

Summary: The total estimated fiscal impact of the bill based upon the assumptions outlined is shown in the following chart. The fiscal impact assumes the allocation of \$500,000 of federal child care funds in FY14 and \$250,000 in FY15 and each year thereafter for the purposes of the bill.

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Operations:				
NDE Staff/Benefits*	209,225	530,851	530,851	530,851
HHS Staff/Benefits**	60,072	120,144	120,144	120,144
Quality Rating System	129,242	348,195	348,195	348,195
Data Systems & Support	150,000	150,000	150,000	150,000
Evaluation***	0	0	0	0
Technical Assistance/Training	250,000	350,000	350,000	350,000
Publicity	<u>75,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Total Operations	873,539	1,549,190	1,549,190	1,549,190
Less: Reallocated federal HHS funds	<u>-500,000</u>	<u>-250,000</u>	<u>-250,000</u>	<u>-250,000</u>
Net Fiscal Impact for Operations	373,539	1,299,190	1,299,190	1,299,190
State Aid:				
Child Care Subsidies (HHS)	857,077	1,714,153	1,714,153	1,714,153
Scholarships (NDE)	0	100,000	100,000	100,000
Tiered Child Care Subsidies (HHS)	0	0	87,100	587,480
Step Incentive Bonuses (NDE)	<u>0</u>	<u>26,700</u>	<u>69,000</u>	<u>69,000</u>
Total State Aid	857,077	1,840,853	1,970,253	2,470,633
TOTAL NET FISCAL IMPACT	\$1,230,616	\$3,140,043	\$3,269,443	\$3,769,823

*3 FTE in FY14 (9 Mos.), 6 FTE in FY15

** .5 FTE in FY14, 1 FTE in FY15

***Private funding - estimated \$50,000

General Funds	1,221,004	3,120,820	3,250,220	3,750,600
Federal Funds	<u>9,612</u>	<u>19,223</u>	<u>19,223</u>	<u>19,223</u>
Total Funds	\$1,230,616	\$3,140,043	\$3,269,443	\$3,769,823

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES			
LB: 507	AM:	AGENCY/POLT. SUB: Education	
REVIEWED BY: Elton Larson		DATE: 2/6/2013	PHONE: 471-4173
COMMENTS: Dept. of Education estimates appear reasonable.			

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES			
LB: 507	AM: 1173	AGENCY/POLT. SUB: HHS	
REVIEWED BY: Elton Larson		DATE: 5/8/2013	PHONE: 471-4173
COMMENTS: HHS analysis and estimated impact of LB 530 on HHS appear reasonable.			

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2013

LB⁽¹⁾ 507 FISCAL NOTE

State Agency OR Political Subdivision Name: (2) Nebraska Department of Education

Prepared by: (3) Melody Hobson Date Prepared: (4) 1/25/13 Phone: (5) 402-471-0263

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2013-2014</u>		<u>FY 2014-2015</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>2,455,191</u>	<u> </u>	<u>4,627,767</u>	<u> </u>
CASH FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FEDERAL FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
OTHER FUNDS	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUNDS	<u>2,455,191</u>	<u> </u>	<u>4,627,767</u>	<u> </u>

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate: The Nebraska Department of Education and the Nebraska Department of Health and Human Services have a long history of collaboration regarding early childhood initiatives. For this fiscal note, the calculations have been made based on the pay schedule and fiscal guidelines from the Nebraska Department of Education. This estimate includes hiring an administrator, data entry staff, and early childhood specialists to monitor the Step Up To Quality, Quality Rating and Improvement System (QRIS). Administration of the QRIS, including program monitoring, program portfolio verification, data systems, and contracting for other necessary services are included in the agency budget. Within the operating budget for the 2013-2014 year, \$2,088,842 is estimated for contractual services. Within the operating budget for the 2014-2015 year, \$3,973,677 is estimated for contractual services. The contractual services are outlined in the following table.

Budget of contracted services	2013-2014	2014-2015
Assessment of Quality	129,242	348,195
Program Incentives	1,093,194	2,047,479
Public Awareness	95,000	120,000
Evaluation	84,056	174,439
Training	146,730	383,460
Scholarships	265,620	465,104
Data systems and support	150,000	150,000
Technical Assistance (other than reported in agency budget)	200,000	369,000
	2,163,842	4,057,677

Cost estimates have been initially calculated using the Quality Rating and Improvement Cost Estimation Model created by the Alliance for Early Childhood Finance. The estimates were then adjusted using Nebraska specific information. During the first budget year, it is estimated that approximately 80 child care programs will either be required to participate (based on the amount of child care subsidy dollars the program receives) or will choose to participate in the QRIS system. During the second budget year, it is estimated that approximately 150 child care programs will participate.

MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2013-2014 EXPENDITURES</u>	<u>2014-2015 EXPENDITURES</u>
	<u>13-14</u>	<u>14-15</u>		
Administrator for QRIS	<u>1</u>	<u>1</u>	<u>59,191</u>	<u>60,553</u>
Education Specialist II	<u>1</u>	<u>3</u>	<u>48,996</u>	<u>150,297</u>
Program Associate IV	<u>1</u>	<u>2</u>	<u>35,095</u>	<u>71,768</u>
Benefits.....			<u>91,992</u>	<u>197,106</u>
Operating.....			<u>2,187,128</u>	<u>4,096,916</u>
Travel.....			<u>13,899</u>	<u>32,237</u>
Capital outlay.....			<u>18,890</u>	<u>18,890</u>

Aid.....
Capital improvements.....
TOTAL.....

2,455,191

4,627,767

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

State Agency or Political Subdivision Name:(2) Department of Health and Human Services

Prepared by: (3) Willard Bouwens

Date Prepared:(4) 5-2-13

Phone: (5) 471-8072

	<u>FY 2013-2014</u>		<u>FY 2014-2015</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	\$907,537		\$2,908,268	
CASH FUNDS				
FEDERAL FUNDS	\$9,612		\$19,223	
OTHER FUNDS				
TOTAL FUNDS	\$917,149		\$2,927,491	

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

AM1173 amends LB507 AM701 Sec. 16. Section 68-1206 to include a provision to:

"...provide child care assistance to families with incomes up to one hundred twenty-five percent of the federal poverty level for FY2013-14 and one hundred thirty percent of the federal poverty level for FY2014-15 and each fiscal year thereafter."

The eligibility group in the Nebraska Child Care program that would be affected is the Low Income Sliding Fee (LC) eligibility group which currently has an income limitation set at 120% of the Federal Poverty level. LB507 AM701 as amended by AM1173 would raise the maximum income level for this group.

For LB 507 AM 1173, assuming the income range of participants would be equally distributed between 120% and 185% FPL, approximately 173 participants would become eligible at 125% FPL, and 346 would become eligible at 130% FPL.

Using the current monthly average of \$412.85 per LC participant the estimated monthly increase in Child Care Subsidy expenditures with an increase to 125% FPL would be \$71,423 (GF) (\$412.85 * 173) or a fiscal impact to the Department of Health and Human Services of \$857,077 (GF) for FY 2013-14.

The estimated monthly increase in Child Care Subsidy expenditures with an increase to 130% FPL would be \$142,846 (GF) (\$412.85 * 346) or a fiscal impact to the Department of Health and Human Services of \$1,714,153 (GF) for FY 2014-15.

LB507 AM507 creates the "Step Up to Quality Act", which establishes a Quality Rating and Improvement System (QRIS) for Child Care and Early Childhood education in Nebraska which would provide for fiscal incentives to certain Child Care providers participating in the Child Care program beginning July 1, 2014 (FY 2014-2015). The Department also expects that at least one position would be required for program oversight starting in January 2014 (FY 2013-2014), six months before the commencement of the incentive program.

The bill would require the Department of Education (NDE) and the Department of Health and Human Services (DHHS) to collaboratively develop, implement, and provide oversight for a quality rating and improvement system (QRIS) for applicable child care and early childhood education programs. The bill also specifies purposes of the system and major components. It makes participation in the system voluntary for child care/education programs, except that it requires mandatory phased-in participation for those programs receiving specified amounts in child care assistance pursuant to 68-1202 (child care subsidy). NDE and DHHS would be required to develop incentives to include, but not limited to, tiered child care subsidy reimbursement rates and/or bonuses based on level of rating in the QRIS system. The bill requires that NDE create the NE

Early Childhood Professional Record System, and requires NDE and DHHS to make child care/early education ratings accessible publicly.

Qualifying providers would receive incentive bonuses and other incentives based on completion of specific requirements. The bill also requires DHHS and the NDE to provide that certain child care and early childhood education programs be reimbursed at higher rates than reimbursement rates determined by the child care market rate survey which are currently set by statute at not less than the sixtieth percentile and not exceeding the seventy-fifth percentile of current market rates.

An NDE QRIS committee established an estimate on costs (employing a QRIS estimation model) for the first four years of the program at over \$21M including financial incentives. Note that the model assumed the cost of the program could be funded by Child Care Development Funds (CCDF), but see below*.

Using the QRIS committee estimate, the total cost of the QRIS program including training, assessment, evaluation, and staff as well as financial incentives as established by the bill beginning July 1, 2014, FY 2014-2015 would be \$2,355,417 (GF). Expected total costs for FY 2015-2016 were estimated to be \$4,309,305 (GF)

The major fiscal impact to the Department would be the financial incentives for the Child Care subsidy program. The costs of the financial incentives, as established by the QRIS model, beginning July 1, 2014 (FY 2014-2015) were estimated at \$1,093,194 for FY 2014-2015 and \$2,047,479 for FY 2015-2016. Subsequent fiscal year costs would be higher than FY 2015-16.

The Department also estimates that a QRIS financial incentives program would require at least one position (CCDF Administrator I) to oversee the program. This is a cost over and above the QRIS model estimates.

Assuming that an administrator would need to be in place not less than six months before the commencement of the program on July 1, 2014 the estimated cost for one DHHS Administrator I would be \$60,072 for FY 2013-2014 (\$50,460 GF, \$9,612 FF). For FY 2014-2015 and FY 2015-2016 the estimated cost would be \$120,144 (\$100,921 GF, \$19,223 FF) per fiscal year.

Including an administrator position for overseeing the financial incentives program, the total estimated expenditures to the Department of Health and Human Services would be \$60,072 for FY 2013-2014 and \$1,213,338 for FY 2014-2015. For FY 2015-2016 the estimated costs would increase to \$2,167,623.

It is assumed for this fiscal note that the costs not associated with the financial incentives and the administrator position would be the responsibility of the Department of Education.

*Current CCDF federal funds are essentially a fixed amount block grant and could not be used to support the expenditures required by this bill. In the absence of any additional federal funding for the program the fiscal estimate assumes that all funding would need to come from General Funds except for the federal match for the administrator position.

The combined fiscal impact of LB507 as amended by AM701 and AM1153 is \$917,149 (\$907,537 GF \$9,612 FF) for FY 2013-2014 and \$2,927,491 (\$2,908,268 GF \$19,223 FF) for FY 2014-2015

MAJOR OBJECTS OF EXPENDITURE				
PERSONAL SERVICES:				
POSITION TITLE	NUMBER OF POSITIONS		2013-2014	2014-2015
	13-14	14-15	EXPENDITURES	EXPENDITURES
DHHS Administrator I (G78801)		1	\$28,992	\$57,984
Benefits.....			\$11,597	\$23,194
Operating.....			\$19,483	\$38,966
Travel.....				

Capital Outlay.....		
Aid.....	\$857,077	\$2,807,347
Capital Improvements.....		
TOTAL.....	\$917,149	\$2,927,491