

Revised based on new information

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2021-22		FY 2022-23	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS	\$28,622,959		\$34,763,817	
OTHER FUNDS				
TOTAL FUNDS	\$28,622,959		\$34,763,817	

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

This bill increases the child care subsidy income eligibility from 130% of the Federal Poverty Level (FPL) to 185%. Transitional child care income eligibility would increase from 185% of FPL to 200%. The higher income eligibility would be in effect from July 1, 2021 through June 30, 2024. The bill states the federal Child Care Block Grant would be used first to cover the cost of the increase; the Temporary Assistance for Needy Families grant would be the second source of funding. General funds are prohibited from being used to cover the expanded eligibility costs through June 30, 2024. The bill has the emergency clause.

Based on the 2019 American Community Survey of the U. S. Census, there are approximately 43,198 children under age 19 with incomes between 130% and 185% of poverty. Those under age 13 would be 28,511 or 14,255 cases assuming two children per case. Assuming 25% of those families are in need of child care, the number using the subsidy would be 7,128 kids or 3,564 cases. The average monthly cost per case in the last two months of 2020 was \$590. The costs in FY 2022 would be \$25,231,952; \$26,493,549 in FY 2023 and in FY 2024. Assuming an additional cases 72 cases are added each month to transitional assistance, the additional cost would be \$2,892,240 in FY 2022 and \$7,786,800 in FY 2023 and \$12,681,360 in FY 2024.

The department estimates that approximately twice as many households would apply than would be determined eligible. In SFY 2019, the department issued 22,234 denials to households applying for SNAP, LIHEAP or the child care subsidy due to exceeding the 130% of FPL income limit. (Applications for multiple programs that were denied count as one denial, if in the same month.) The current number of households applying anticipated to apply is 7,128. The department is currently processing more cases to determine initial eligibility than projected to apply under the provisions of this bill. The department is currently staffed to handle the volume of initial eligibility determinations. Using the department’s estimate that an ongoing child care case takes an additional three hours of processing a year (five hours total less two hours of initial eligibility determination), the total number of processing hours would be 10,692. Six social service workers and one supervisor would be needed. The costs would be \$495,467 in SFY 2022 and \$483,467 in SFY 2023 and FY 2024. Changes to NFOCUS will cost \$3,300 in FY 2022.

Two recently passed federal laws are providing a total of \$148,639,000 for the child care subsidy program in Nebraska. The American Rescue Plan Act was enacted on March 11, 2021. This federal law provides Nebraska with \$89,286,000 in supplemental funding. The funds are to carry out the program authorized under the Child Care and Developmental Block Grant Act (CCDBG). According to Section 2201(c), “The amounts made available to carry out this section shall be used to supplement and not supplant other Federal, State, and local public funds expended to provide child care services to eligible individuals.” The funds must be obligated by September 2023 and liquidated through September 30, 2024.

On December 27, 2020, the federal Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act was signed into law. Under the CRRSA Nebraska is receiving \$59,653,000. The funding is to supplement, not supplant general revenue funds. Funding must be obligated by September 30, 2022 and liquidated by September 30, 2023. Federal guidance issued on April 14, 2021 states, “The CRRSA Act fund can be for any activities that are allowable under the CCDBG Act and CCDF regulations, *as long as the activities relate to preventing, preparing for and responding to COVID-19.*” The guidance further states that, “CCDF lead agency can use the funds to support direct child care services, including increased payment rates to providers and expanded eligibility for families.” These two supplemental sources of funding in the CCDBG are adequate to cover the costs of expanded eligibility and administrative costs through FY 2024.

An additional source of funding is the TANF Block Grant. The TANF Block Grant allocation for Nebraska is \$56,627,264 annually. The rainy day balance on September 30, 2020 was \$92,177,255. This balance has consistently grown over many years. The Department of

Health and Human Services' fiscal note indicates that TANF funds are currently obligated. The projection for use of the TANF funds shows \$62.9 million would be used in FFY 21; \$67.6 million in FFY 2022 and \$70.6 million in FFY 2023. These figures include a double counting of \$3.1 million over three federal fiscal years for the increases provided for in LB 89 which was passed in the 2016 Session. Additionally, the amounts include \$9.8 million over three federal fiscal years in new programs initiated by the department. State statute directing the use of TANF funds would prevail over the department's newly proposed initiatives.

Costs incurred under the CRRSA and ARPA obligation periods can be used for the increased eligibility. Costs incurred prior to September 2022 can be paid with CRRSA funds through September 2023. For the ARPA, costs incurred through September 30, 2023 can be paid through September 30, 2024. The costs for families eligible under the provisions of this bill beginning on October 1, 2023 through June 30, 2024 will be paid with the TANF Block Grant. The estimated cost drawdown of the TANF rainy day balance in FY 2024 would be \$29.4 million.

After the higher eligibility period ends on June 30, 2024, families that became eligible during the period when income eligibility was higher will slowly transition off the subsidy. Those costs will slowly become decline, as children age out of the need for child care and families' incomes exceed the lower transitional benefit. Those costs will be paid from General Funds if the CCDBG allocation and TANF Block Grant in FY 2025 and beyond are not sufficient to cover those costs.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE			
LB: 485	AM: 764, 1057	AGENCY/POLT. SUB: Nebraska Department of Health & Human Services	
REVIEWED BY: Ann Linneman	DATE: 4-27-2021	PHONE: (402) 471-4180	
COMMENTS: No basis to disagree with the Nebraska Department of Health & Human Services' assessment of fiscal impact.			

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

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

Prepared by: (3) Mike Michalski

Date Prepared 4-27-2021

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	<u>FY 2021-2022</u>		<u>FY 2022-2023</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS	\$35,109,037		\$35,105,737	
OTHER FUNDS				
TOTAL FUNDS	\$35,109,037		\$35,105,737	

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

Explanation of Estimate:

LB485 AM764 increases the amount of initial eligibility in the Department of Health and Human Services (DHHS) Child Care (CC) program from 130% Federal Poverty Level (FPL) to 185% FPL and also increases the FPL redetermination limit of transitional child care (TCC) from 185% FPL to 200% FPL. This three-year pilot program will run from FY2021-22 through FY2023-24. Also, during this pilot program Department of Health and Human Services will collaborate with a private nonprofit organization with expertise in early childhood and education for an independent evaluation. The costs associated with collaboration with the private nonprofit organization will be absorbed by external funds.

Based on US Census Bureau estimates of Nebraska population by FPL for 2019, it is estimated that 172,793 individuals are living between 130% and 185% FPL. It is assumed that 25% would be under 18 (43,198 individuals). It is assumed that 75% of those under 18 would be under 13 and could utilize child care (32,399 children or 16,200 households assuming 2 children/household). It is assumed that 50% do not need child care and would not apply. It is also assumed that only 50% of all who apply would be approved. The estimated amount of new child care cases would be 4,050 ongoing cases (8,100 children). Due to a change in regulations on September 15, 2020, providers can now bill up to 5 absence days, per month, per child. In the three full months after the absence day change (November 2020 to January 2021 paid months), the average cost per case was \$590 per month. It is assumed that will be the cost per month going forward. As there is an emergency clause, it is assumed that the increase in cases would begin July 1, 2021. The costs of the aid would be \$28,674,000 per year.

LB485 AM764 also increases the FPL redetermination limit of TCC from 185% FPL to 200% FPL. Based on current TCC subsidy eligibility cases, it is presumed that an additional 1,703 children or a total of 856 households (each household has an average of two children) will now be eligible for TCC. The average transitional child care cost per case per month in SFY20 was approximately \$515. The total cost would be \$5,290,080 per year.

For the 4,050 new cases due to initial eligibility, the number of administrative hours needed per case per year is five hours (due to initial assessment and ongoing eligibility redetermination). For the other 50% that would apply but likely not be eligible, those 4,050 cases would only require two hours of an initial assessment. The total number of hours required is 28,350 hours per year during the three year pilot program. One hour of processing time would also be needed for the TCC cases for a total of 856 hours. The total hours worked per year would be 29,206 hours. To implement the change of LB 485, DHHS would need to hire 15 social service workers and 2 social service worker supervisors starting July 1, 2021. NFocus changes would need to be made for AM764. The estimated amount of cost would be \$3,300 (15 hours Business Analyst at \$55 per hour and 75 hours Application Developer at \$33 per hour).

There is an emergency clause in AM 764 that requires the pilot to begin on July 1, 2021. This is the reason for the higher increase in costs for SFY 2022 compared to the introduced LB 485. There are programming limitations to start this pilot at that time. If the bill is signed by May 15th, 2021, the Department can implement it by July 1st, 2021. If the bill is approved after that date, the NFocus coding would be delayed and the bill could not be implemented. DHHS needs at least 45 calendar days after the bill is signed to complete coding in NFocus to implement LB 485.

LB485 AM764 requires that funds from the Child Care and Development Block Grant (CCDBG) would be first utilized to pay for the changes and if those funds are not available, then Temporary Assistance for Needy Families (TANF) funds may be utilized. All current CCDBG and TANF funds are currently being obligated for current bienniums. LB485 AM1057 states that no general funds may be used to pay for the costs of the income eligibility changes for fiscal years 2021-22 through 2023-24. The newly passed American Rescue Plan Act (ARPA) has provided additional federal dollars for child care. Federal guidance has not been finalized at this point, however initial guidance indicates that this pilot project is an approved use of ARPA funds. If ARPA funds cannot be used, DHHS would need to have a general fund appropriation to implement LB 485 or be at risk of not complying with Nebraska statute.

ARPA funds have to be obligated by September 30, 2023 and liquidated by September 30, 2024. Child Care claims that are outside of the obligation period (paid after October 1, 2023), cannot utilize ARPA dollars. Unless there is a new influx of federal child care funds, general funds would be needed for costs beginning October 1, 2023. For the last year of the pilot period (July 2023 to June 2024), the general fund costs for LB 485 would \$26,329,303 and the federal fund cost would be \$8,776,434 for a total cost of \$35,105,737 (GF costs would be all expenses beginning October 1, 2023).

After the three-year pilot program ends in June 2024, there will be an ongoing cost to DHHS. The gross income eligibility test for initial applications would decrease from 185% FPL back to 130% FPL and the annual gross income redetermination test for TCC would decrease from 200% FPL back to 185% FPL. Those families who became eligible during the pilot program, having income between 130% - 185% FPL, would continue to remain eligible for TCC once the pilot program ends unless either the child no longer qualifies due to age requirements or income exceeds the 185% FPL standards at redetermination. If children are added to those families after the pilot program ends but their income does not exceed 185% FPL, the family will remain eligible thus increasing the numbers of newly eligible children. The end of the "pilot program" would continue for multiple years past the end date of the pilot program in statute. If all 4,050 cases would receive a TCC case rate (\$515 per month without any inflationary increase) beginning in July 2024, the general fund impact for the aid amount would be \$2,085,750 per month or \$25,029,000 per year. Any amount of cases below the estimated 4,050 cases would decrease the cost beginning in SFY 2025. The amount of staff time would be decreased (starting in July 2024) as TCC cases require only 1 hour per year of staff time for annual redetermination. The number of social service workers could drop from 15 to 2 per year. Staff costs would need to utilize all general funds since DHHS utilizes all of the administrative funds available in the Child Care Discretionary Fund (CCDF).

MAJOR OBJECTS OF EXPENDITURE				
PERSONAL SERVICES:				
POSITION TITLE	NUMBER OF POSITIONS		2021-2022	2022-2023
	21-22	22-23	EXPENDITURES	EXPENDITURES
Social Service Worker	15	15	\$558,574	\$558,574
Social Services Worker Supervisor	2	2	\$93,895	\$93,895
Benefits.....			\$233,910	\$233,910
Operating.....			\$258,578	\$255,278
Travel.....				
Capital Outlay.....				
Aid.....			\$33,964,080	\$33,964,080
Capital Improvements.....				
TOTAL.....			\$35,109,037	\$35,105,737