

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 14-0764 **Date:** March 17, 2014
Prime Sponsor(s): Rep. Duran **Bill Status:** House Public Health Care and Human Services
 Sen. Nicholson; Kefalas **Fiscal Analyst:** Bill Zepernick (303-866-4777)

SHORT TITLE: COLORADO CHILD CARE ASSISTANCE PROGRAM CHANGES

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016	FY 2016-17
State Revenue			
State Expenditures	<u>\$18,509,508</u>	<u>\$23,621,667</u>	<u>\$35,805,000</u>
General Fund	17,186,764	23,621,667	35,805,000
Cash Funds	7,423	0	0
Federal Funds	1,315,321	0	0
FTE Position Change			
Appropriation Required: \$18,509,508 - Multiple agencies (FY 2014-15)			

* This summary shows changes from current law under the bill for each fiscal year.

Summary of Legislation

The bill makes several changes to the Colorado Child Care Assistance Program (CCCAP) in the Department of Human Services (DHS). These changes are summarized below.

Provider rates. The DHS is required to set provider rates for each county at a level adequate to ensure access for CCCAP families that is equal to that of non-CCCAP families. A system must be established for counties to petition the DHS for the ability to opt out of the state-established rates, if certain conditions are met. The DHS must increase provider rates for infant and toddler care so that, by July 1, 2016, they are at least equal to the 75th percentile of each county's local market rate for this type of care. Rules for provider rates must be established by December 1, 2014. In addition, by July 1, 2016, state-established rates must include a system of tiered reimbursement that provides higher reimbursement to facilities with higher quality ratings.

Income eligibility changes. Subject to available appropriations, counties are required to provide child care assistance to families with incomes up to 165 percent of the federal poverty level (FPL). At their discretion, counties may serve any family so long as their income does not exceed the federal income limit of 85 percent of state median income.

Payment for child absences. The bill requires counties to reimburse providers for up to five days per month for child absences and holidays. This reimbursement must be provided separately from the regular provider reimbursement rate.

Exit income eligibility. The exit income eligibility level is the level at which a county may deny further benefits to a family enrolled in CCCAP. The DHS must establish rules for the exit income eligibility level at which the county may deny benefits for that family. For counties that set their initial CCCAP income eligibility level at less than 185 percent of the FPL, the rules must require the county to set exit income eligibility level at a higher level than the initial eligibility level.

Child care authorization. Current program regulations on the authorization of child care for families enrolled in CCCAP link hours of child care with parents' work schedules. The bill requires that child care be authorized based on maintaining continuity of care for children with the least disruption to the child and that the care schedule not be linked directly with a parent's employment, education, or workforce training schedule.

Waiting lists. The bill required counties to maintain a current and accurate waiting list of parents who have inquired about receiving a CCCAP subsidy and are likely eligible for assistance based on self-reported income and an eligibility criteria. Counties may enroll families off of the waiting list based on local priorities and may require applicants to restate their intention to be on the waiting list every six months in order to maintain their place on the list.

Colorado Works transition. Subject to available appropriations, when a family is transitioning off of Colorado Works, counties must directly enroll the family in CCCAP without requiring a separate application. If the county has a waiting list for CCCAP, they may choose to place the family on the waiting list or provide the CCCAP subsidy immediately. Families cannot be directly enrolled in CCCAP if they are leaving Colorado Works due to a program violation or no longer meet CCCAP eligibility criteria.

Parent co-payments. The bill limits the co-payment amount for families on CCCAP with incomes below 100 percent of the FPL to no more than one percent of the family's gross monthly income. The DHS must promulgate rules outlining the formula for determining parental co-payments. The co-payment formula must gradually increase the parent share as family income approaches self-sufficiency income levels.

Evidence of income. In determining eligibility and calculating co-payment amounts, counties cannot require families to provide evidence of more than one month of income, but families may choose to provide evidence on up to 12 months of income for these purposes.

Presumptive eligibility. Current law allows child care providers to conduct a pre-eligibility determination of CCCAP applicants, submit documentation to the county, and provide care for the family. If the family is later found to be ineligible, the provider is not reimbursed. The bill expands this pre-eligibility determination to counties, which allows families applying through a county who are presumed eligible to begin receiving care, even if certain documentation or aspects of the application are still pending.

Eligible activities. The bill expands the activities in which a parent may be participating in order to be eligible for CCCAP. Subject to available appropriations, a parent who is not employed but who is enrolled in a post-secondary education program or workforce training program is eligible for CCCAP for a period of up to two years. The bill also expands the period in which an unemployed parent is eligible while actively engaged in job search activities.

Eligibility for families receiving food assistance. Subject to available appropriations, counties must determine families deemed eligible for the Supplemental Nutrition Assistance Program (SNAP) as eligible for CCCAP if they meet all other program eligibility criteria. Counties may use eligibility determination information from other public assistance programs and systems in determining CCCAP eligibility.

Program analysis and reporting. On or before December 1, 2015, and each December thereafter, the DHS is required to prepare a report on CCCAP and submit the report to the health and human services committees of the General Assembly.

Other provisions. The bill makes various other changes to CCCAP. Child care providers are authorized to accept CCCAP applications and transmit them to counties on behalf of families. Counties are required to post eligibility, authorization, and administration policies and procedures in an accessible and user-friendly manner and to submit these policies to the DHS for compilation. In addition, counties are allowed to contract or provide grants for child care providers to operate a set number of CCCAP slots for up to a 12-month period.

Background

CCCAP provides subsidies to eligible families to offset the costs of child care. Families must meet income and eligibility requirements in order to receive a subsidy. While the state sets certain program requirements and provides funding to counties for CCCAP, counties have wide discretion in setting income eligibility and authorized activities in order to manage the program within available funding in that county. CCCAP was appropriated \$75.5 million in FY 2013-14, with funding primarily from federal Child Care Development Funds, General Fund, and local funds.

State Expenditures

The bill increases costs in the DHS by **\$18.5 million in FY 2014-15, \$23.6 million in FY 2015-16, and \$35.8 million in FY 2016-17**. Costs are phased in over several fiscal years, with costs in FY 2016-17 representing the full implementation of the bill. Costs in the first year are primarily General Fund, as well as cash funds and federal funds. Future year costs are entirely General Fund. Table 1 provides an overview of costs in the bill, described in more detail in the sections below.

Table 1. Expenditures Under HB 14-1317			
Cost Components	FY 2014-15	FY 2015-16	FY 2016-17
CCCAP Funding to Counties	\$16,866,667	\$23,366,667	\$35,550,000
Information Technology System Costs	1,387,841	0	0
Market Rate Survey	255,000	255,000	255,000
TOTAL	\$18,509,508	\$23,621,667	\$35,805,000

CCCAP funding to counties. The bill increases the amount of CCCAP funding required by counties by \$16.9 million in FY 2014-15, \$22.9 million in FY 2015-16, and \$35.5 million in FY 2016-17. These costs are driven by several different provisions of the bill, including increasing provider rates to the 75th percentile in each county, requiring payments for additional child absences, limiting parental co-payments, and implementing a tiered reimbursement system for providers. The costs of these changes are described in Table 2 and the discussion below.

Assumptions on CCCAP funding. The fiscal note assumes that the changes to county CCCAP programs required under the bill will be fully funded. However, it should be noted that the General Assembly has discretion to set county funding levels under CCCAP and could choose to have counties implement the bill with lower amounts of funding than estimated in the fiscal note. If such a funding decision is made, counties would be required to reduce the number of children served in order to implement the bill based on available appropriations and prioritize which types of families to serve in order to stay within available appropriations.

Table 2. Increased CCCAP Funding to Counties Under HB 14-1317			
Cost Components	FY 2014-15	FY 2015-16	FY 2016-17
Provider Rates to 75th Percentile	\$1,666,667	\$6,666,667	\$10,000,000
Increased number of Paid Absences	12,500,000	13,500,000	16,000,000
Limitation on Parental Co-Payments	2,700,000	2,700,000	2,700,000
Tiered Reimbursement	0	0	6,850,000
TOTAL	\$16,866,667	\$22,866,667	\$35,550,000

Provider rates to 75th percentile. The bill requires the DHS to set provider rates at least equal to the 75th percentile of the market rate in each county for infant and toddler care. At full implementation, this rate increase will increase CCCAP costs by approximately \$10 million per year. The bill specifies that the rates must reach this level by July 1, 2016, and that this rate is to be phased in over the years prior to this date. Assuming the higher rate phases in evenly each year (33 percent the first year, 67 percent the second year, and the full increase in the third year), costs will increase by \$1.7 million in FY 2014-15, \$6.7 million in FY 2015-16, and \$10.0 million in FY 2016-17. First-year costs are prorated to reflect six months of costs at the increased rate following initial rule making.

Increased number of paid absences. The bill requires counties to pay providers for up to five absences and holidays per month. This cost is estimated at \$12.5 million in FY 2014-15, \$13.5 million in FY 2015-16, and \$16.0 million in FY 2016-17. Many counties have already implemented paid absences in their CCCAP programs, but typically at a lower number of absences than five days per month; many counties do not pay for absences at all. Assuming an average increase of two days per month and five holidays per year for each child in CCCAP (a total increase of 29 paid absences per child per year), costs will increase by \$12.5 million in the first year based on caseload levels in FY 2012-13. Cost will increase each year through FY 2016-17 to about \$16 million per year, as the rates for infants and toddlers are increased to the 75th percentile.

Limitation on parental co-payments. Limited co-payments by parents is expected to reduce revenue to CCCAP providers by \$2.7 million statewide. In order to maintain provider participation, the fiscal note assumes that this funding loss would be offset by an increase in CCCAP funding to counties, which would be passed on to providers. The cost of the lower co-payments is based on fees paid by parents in FY 2012-13.

Tiered reimbursement. The bill requires tiered reimbursement to be implemented in all counties by July 1, 2016, according to rules established by the DHS. Thus, costs for tiered reimbursement, estimated at \$6.8 million initially, will begin in FY 2016-17. Costs for tiered reimbursement will increase in future years as more facilities become rated or improve their quality rating in response to the tiered reimbursement incentive. Using the amount of care provided in FY 2012-13, the \$6.8 million estimate is based on the following:

- two-star facilities provide 50 percent of care and will receive an additional \$2 per day per child;
- three-star facilities provide 22 percent of care and will receive an additional \$5 per day per child;
- four-star facilities provide 12 percent of care and will receive an additional \$7 per day per child; and
- no five-star facilities initially provide care (but will receive an additional \$10 per day per child, if such care is provided).

Other eligibility provisions. The bill includes various other eligibility provisions, such as requiring CCCAP eligibility to be set higher than 165 percent of the FPL and expanding eligibility during participation in job search activities, post-secondary education, and workforce training. These provisions may increase costs for counties if such clients are served. However, the fiscal note assumes that counties will be able to manage these new eligibility categories within their existing CCCAP allocations. Counties currently have discretion in prioritizing which applicants are served within available resources and it is assumed that this will continue for these new eligibility categories.

Information technology costs. The DHS must make changes to the Child Care Automated Tracking System (CHATS), the Colorado Benefit Management System (CBMS), and the Automated Child Support Enforcement System (ACSES) at a cost of \$1.4 million in FY 2014-15, as described below.

CHATS. Changes to CHATS are estimated to cost \$1,216,781 in FY 2014-15, paid with federal funds. These changes are required to adjust the CHATS interface with CBMS and other systems, adjust payment and rate functions in the system, and other modifications. These costs are based on the need for 11,592 hours of programming and analyst time at an average rate of about \$105 per hour. This work will occur in FY 2014-15 and last about 10 to 12 months.

CBMS. The bill requires changes to CBMS to ensure that parents transitioning off Colorado Works are properly enrolled in CCCAP, if eligible. These changes will cost \$130,448, based on 1,052 hours of programming and staff time at the contracted rate of \$124 per hour. Costs in the DHS include \$31,100 General Fund, \$4,189 cash funds, \$44,529 reappropriated funds from the Department of Health Care Policy and Financing (HCPF), and \$50,630 federal funds.

ACSES. Changes to ACSES are necessary due to corresponding system changes in CHATS. These costs are estimated at \$40,612, paid with \$12,184 General Fund, \$2,843 cash funds, and \$25,585 federal funds. These costs are based on the need for 386 hours of programming and analyst time at an average rate of about \$105 per hour. This work will occur in conjunction with the CHATS system changes above.

Market rate survey. The DHS will have costs of \$255,000 per year for a contractor to conduct an annual market rate survey. This survey will be used by the DHS to set county provider rates in compliance with the bill.

Local Government Impact

The bill affects county costs and workload for CCCAP in several ways, as discussed below.

CCCAP costs. The bill increases CCCAP costs for counties from higher reimbursement rates to child care providers and payment for additional absence days. However, to the extent that appropriations are included in the bill, counties will receive additional CCCAP funding to offset most of these costs.

Caseload management and other workload. Counties will have additional workload to manage waiting lists and prioritize services across a wider range of potentially eligible clients. If CCCAP allocations prove to be insufficient to cover costs under the bill, counties would be required to reduce the number of children served in their CCCAP programs or provide additional county

funding. The bill will likely encourage more applicants to apply for CCCAP, which could increase county workload for eligibility determination tasks. Counties will also be required to post CCCAP policies and procedures in a user-friendly manner and comply with various other provisions of the bill.

Administrative simplification. Some provisions of the bill simplify aspects of CCCAP program administration. For example, using the state-established provider rates will likely take less effort for county staff than establishing and negotiating rates with providers themselves. Also, the bill reduces the number of months of evidence of income that must be presented, which could simplify parts of the eligibility determination process and reduce the need for follow-up with clients presenting insufficient documentation.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

The bill requires appropriations totaling \$18,509,508 for FY 2014-15, as follows:

- **\$16,866,667 General Fund to the DHS for county CCCAP allocations;**
- **\$255,000 General Fund to the DHS for the CCCAP market rate study;**
- **\$1,216,781 in federal funds to the DHS for CHATS modifications**, of which the whole amount is reappropriated to the Governor's Office of Information Technology;
- **\$130,448 to the DHS for CBMS modifications**, including \$31,100 General Fund, \$4,189 from the Old Age Pension Fund, \$44,529 from reappropriated funds, and \$50,630 from federal funds, of which the whole amount is reappropriated to the Governor's Office of Information Technology;
- **\$44,529 to HCPF for CBMS modifications**, including \$21,813 General Fund, \$276 from the Children's Basic Health Plan Trust, \$115 from the Old Age Pension Health and Medical Cash Fund, and \$22,325 from federal funds, of which the whole amount is reappropriated to the DHS; and
- **\$40,612 to the DHS for ACSES modifications**, including \$12,184 General Fund, \$2,843 from the Family Support Registry Fund, and \$25,586 federal funds, of which the whole amount is reappropriated to the Governor's Office of Information Technology.

State and Local Government Contacts

Human Services

Governor's Office of Information Technology

Counties