



**State of Minnesota
Department of Finance**

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May 29, 2007

To: Representative Lenczewski, Chair
Representative Simpson
Senator Bakk, Chair
Senator Ortman

From: James Schowalter 
Assistant Commissioner

Re: Local Impact Note – **SF 536 (Roebling)**
Child Care Background Study and Licensing Fees

On March 23, the Department of Finance received a request to prepare a local impact note on SF 536, a bill modifying county fees for background studies and licensing inspections for family and group family childcare. We have completed our analysis and a copy of the note is attached.

Local impact notes are similar to the fiscal notes that you are familiar with, but they focus on the fiscal impact of proposed legislation on local governments rather than the State. This process is described in Minnesota Statutes 3.987 and 3.988. This statute requires the Department of Finance to gather and analyze information on local costs of legislation when requested by the chair or ranking minority member of either tax committee.

This local impact analysis is based on the first engrossment of SF 536. To complete this local impact note, we contacted 14 counties. Nine counties responded to our request for information. We also gathered information from the Minnesota Licensed Family Child Care Association (MLFCCA) and the fiscal note completed for this bill by the Department of Human Services (DHS).

Using data obtained from MLFCCA, DHS, and the counties that responded, an estimated statewide cost to local governments of \$687,000 in FY 2008 was calculated. It should be noted that a local impact note does not have to be prepared for bills where the statewide cost to local governments is under \$1 million. Despite qualifying for an exception under M.S. 3.988, this local impact note was still completed and is attached for your information.

If you or your staff has any questions regarding the local impact analysis for this bill, please contact Alexandra Broat, Executive Budget Officer at 651-201-8026.

Attachments

cc: Senator Roebling
Legislative Staff (email)



State of Minnesota - Local Impact Note
 Department of Finance with the
 Local Mandates Advisory Committee

May 29, 2007

S.F. 536 (Robling)

**Child Care Background
 Studies and Licensing
 Fee Reductions**

Local Fiscal Impact				
Net Expenditure Increase/Revenue Loss or (Expenditure Decrease/Revenue Gain) Dollars in Thousands, State Fiscal Years				
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Counties:	\$687	\$376	\$376	\$376
Cities:	\$0	\$0	\$0	\$0
Statewide:	\$687	\$376	\$376	\$376

Breakdown of Direct Costs by Category	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Background Studies:	\$311			
License Fees:	\$376	\$376	\$376	\$376
TOTAL	\$687	\$376	\$376	\$376

Local Governments Contributing:

Counties: Olmsted, Hennepin, Ramsey, Jackson, Cass, Clay, Kanabec, Washington, and Morrison.

EXPLANATION OF BILL

SF 536 modifies county fees for background studies and licensing inspections for family and group family childcare. Specifically, the bill eliminates the provision that allows counties to charge a background study fee, starting July 1, 2007, and reduces the amount counties may charge annually for licensing fees. Currently, counties are authorized to charge up to \$100 for background study costs and a maximum of \$150 annually for licensing fees. Under this bill, counties would not be allowed to charge anything for background studies and a maximum of \$50 for a one-year license and \$100 for a two-year one. SF 536 also requires that the Department of Human Services (DHS) conduct family and group family childcare background studies starting January 1, 2008. Currently, counties are responsible for conducting these studies.

LOCAL IMPACT ANALYSIS SUMMARY

The bill will have no fiscal impact on cities, but will have costs to counties. This analysis is based on the first engrossment of SF 536. It examines two potential cost areas for counties. One

is the cost of conducting background studies without the ability to charge a fee for the six months before DHS begins completing these studies. The other is the reduced revenue some counties will experience as a result of new limitations on license fees. These costs are discussed and estimated in the detailed analysis below.

LOCAL IMPACT ANALYSIS DETAIL

Background Studies

Under SF 536, counties would have to conduct background studies for family and group family child care license applicants from July 1, 2007 to January 1, 2008 without being able to collect background fees to recover their costs. An estimate of the lost background fee revenue over a six-month period was calculated using county data on child care licenses collected by the Minnesota Licensed Family Child Care Association (MLFCCA) and from the nine contributing counties listed at the top.

The estimate is based on the following assumptions:

- Four background checks performed per provider – assumes background checks for the license holder, a significant other, one child over the age of twelve in the household, and one helper (from fiscal note on SF 536 prepared by the Minnesota Department of Human Services)
- 10% of all licensed providers in a given year are new (from DHS fiscal note on the bill)
- 60% of existing licensed providers will need background checks each year (based on data received from the 9 contributing counties listed at the top)

Using these assumptions and data from the MLFCCA, the following formula was developed to calculate the estimated loss of background fee revenue for each county:

Average Background fee assuming 4 checks per provider (\$75.18) x Number of licensed providers needing background checks in 1 year (8278) x 0.5 = Total background fee revenue for 6 months (\$311,170)

The total estimated background fee revenue loss over 6 months for all 87 counties as a result of this legislation is **\$311,170**.

Licensing Fees

The bill also reduces the licensing fee counties are allowed to charge a family or group family childcare license holder from a maximum of \$150 annually to a maximum of \$50 for a one-year license and \$100 for a two-year one. For those counties that currently charge more than the proposed limit, this analysis estimates the difference between what counties will be allowed to charge under the proposed bill and what they are currently charging for licensing fees.

The following assumptions were used:

- 10% of licenses given in a year are initial licenses (based on DHS fiscal note)
- 15% of licenses given in a year are one-year licenses (based on county responses)

- 75% of licenses given in a year are two-year licenses (based on county responses)
- 80% of licensed providers are paying a license fee each year (based on county responses)

Using these assumptions and data from MLFCCA on the number of licensed providers and licensed fees charged by each county, a statewide total loss to local governments of **\$376,000** per year in license fee revenue was estimated. This total was a combination of an estimated loss of \$69,560 annually in fees for initial licenses; \$103,755 in fees for one-year licenses; and \$206,531 in fees for two-year licenses.

Other Considerations

Overall, the estimated fiscal impact to counties as a result of the provisions in SF 536 is relatively small. One of the reasons for this is that many counties currently charge less than the proposed limits for license fees, with some not charging for family child care licenses or background studies at all. For example, 40 counties charge less than \$100, the proposed maximum, for a two-year license. The total fiscal impact could also be less than estimated in this analysis as a result of possible fee shifts. Counties that currently charge fees for background checks, but do not charge the maximum amount proposed under this bill for license fees may raise their license fees to help cover the cost of background checks. Since this is an unpredictable behavioral change in response to SF 536, the effects of this possible shifting were not estimated in this analysis.