I. CHAPTER OVERVIEW

Subsidized Child Care Services are provided with federal and state funds. The Division of Child Development (DCD) administers both types of funding. This chapter describes how these funds are appropriated and distributed to counties through an annual allocation process.

II. FUNDING SOURCES

There are three federal funding streams that help pay for child care services in North Carolina. These federal funds are combined with state funding to create a seamless child care program for families who need help in paying for care. By combining funds at the state level, local purchasing agencies do not need to track federal funding sources or categories within federal funding sources. An explanation of the federal funds and the eligibility criteria for each is provided below.

A. Federal Funds

1. Child Care and Development Fund (CCDF)

The Child Care and Development Fund is the largest source of federal funding available for child care services. This funding can be used to pay for child care to support education, training and employment.

The CCDF has three funding components: mandatory, matching and discretionary. Each state is required to spend 70% of the mandatory/matching allocation for families who are receiving public assistance, families who are attempting through work activities to transition off public assistance, and families who are at risk of becoming dependent on public assistance. The discretionary funds can be used for other income-eligible families who are working or in education and training activities. Local purchasing agencies (LPA) do not have to track the 70% requirement. This is done at the state level. A state match is required for the matching portion of this funding.

Funds are also used for payment of initiatives such as activities to support inclusion of children with special needs, expansion of before/after-school child care services and resource and referral services. In addition some of the CCDF monies received by the state must be spent to improve the quality of child care. These funds are distributed through contracts and grants.

2. Temporary Assistance for Needy Families (TANF)

The Temporary Assistance for Needy Families (TANF) Program is a federal block grant program that provides financial assistance to needy families and offers supportive services to help families achieve self-sufficiency. The Department of Health and Human Services (DHHS) must use the available TANF funds for eligible, needy families with a child for the following purposes:

a. To provide financial assistance to needy families;

b. To end dependence of needy parents by promoting job preparation, work and marriage;

c. To prevent and reduce out-of-wedlock pregnancies; and

d. To encourage the formation and maintenance of two parent families.

The TANF Program gives states flexibility to make program and funding decisions to best support the goals of their individual state programs. Funds can be used to provide support services including child care. Federal regulations allow states to transfer up to 30% of their TANF funding for a fiscal year to the Child Care and Development Fund (CCDF) and/or the Social Services Block Grant program (SSBG). For the last few years, the North Carolina General Assembly has transferred TANF funds to the CCDF program for subsidized child care services. When transferred to CCDF these funds may then be used like CCDF to support employment, education and training. These funds are included in each county's annual child care allocation. The NC General Assembly also appropriates additional TANF funds for child care which are not transferred to the Child Care and Development Fund (CCDF), but are included in each county's annual allocation. These funds may be used only for child care to support employment.

County departments of social services may choose to use their local Work First Block Grant funds for child care services. If a county chooses to spend Work First funds for child care, the policies described in this manual apply to the funding. For additional information about the procedures for spending Work First funds for child care, refer to the Work First Family Assistance Manual.

3. Social Services Block Grant (SSBG)

Social Services Block Grant funding is available to fund various social services, including foster care and adoption services, child protective services, adult day care, adult health and in-home aide services, transportation services, and child care services. DCD administers the SSBG funding for child care services while the Division of Social Services administers the funding used for other social services. A state match is not required for this funding source when it is used for child care.

SSBG funding may be used to pay for child care services when needed for one of the following reasons:

a. The child's parents are employed or in education or training activities.

b. The child is receiving protective services or child welfare services.

c. The child is at risk of being developmentally delayed.

d. The family is experiencing a crisis.

B. State Funds

State child care funds are appropriated annually by the North Carolina General Assembly. These funds may be used to pay for child care services for any of the reasons listed above under SSBG. These state funds are blended with CCDF, TANF and SSBG funds to make up each county allocation.

C. Smart Start Funds

State Smart Start funds are appropriated annually by the North Carolina General Assembly. The funding for Smart Start flows from DCD to the North Carolina Partnership for Children (NCPC). NCPC is the agency charged with allocating Smart Start funds to the local partnerships and providing technical assistance about the Smart Start Program.

Each partnership receives Smart Start funding in an allocation from NCPC to provide child care, health care and other critical family services for children under age six (6). Each partnership must use at least 30% of their funding to expand child care subsidies. The 30% requirement can be met in a variety of ways. For example, partnerships may choose to use this funding to serve eligible families on waiting lists, to pay for preschool or Head Start Wrap Around services, and to augment the subsidy payment rate per child by paying quality bonus payments for children ages 0 through five (5) who are in facilities with a two through five Star Rated License.

The local purchasing agency (LPA) is notified by their local Smart Start partnership of the amount allocated for subsidy voucher activities and other activities such as quality bonus payments; however, the Smart Start funds are not available to spend until a funding authorization is received from DCD. The exact amount of the percentages for the Smart Start quality bonus is also determined by each local partnership. A Memorandum of Understanding (MOU) is recommended to be signed by the LPA and local Smart Start partnership to clearly identify how these funds are to be used as well identify any reports that are needed. Smart Start funds may be allocated for child care and services support. These allocated funds have the same state fiscal year as DCD allocated funds, which runs from July 1 through June 30 for service months June through May.

III. ALLOCATION OF SUBSIDIZED CHILD CARE FUNDS

Each county Department of Social Services (DSS) receives an annual allocation of child care funding. The amount of funding may vary from year to year due to the amount of federal and state funds that are available. A portion of the allocation is designated for services support. See Section VIII below for information concerning services support funds

State and federal funds are combined at the state level so the county DSS receives a single annual allocation of funding. DSS staff are notified by DCD each year regarding the amount of funding they will receive for the next state fiscal year (SFY), which runs from July 1 through June 30 for service months June through May. Counties initially receive a projected allocation amount for the next SFY in their annual budget package. This package is distributed by the Division of Social Services in February to county DSS directors and includes information regarding the availability of funding for all programs administered by the local department of social services.

DCD later issues a funding authorization to each county to verify the amount of funding allocated to the county for the year by the Division. The county may find that the allocation figure on the funding authorization is different from the projected amount issued in February. The projected allocation amounts are revised according to actual funding approved by the General Assembly each year and funding authorizations are issued upon receipt of the state's annual certified budget. The county allocation may also be adjusted again when the budget for the federal fiscal year (which runs from October 1 through September 30) is approved and federal grant awards are received. The Division also issues funding authorizations to LPAs for Smart Start funds designated by the local Smart Start partnership for subsidy services and services support.

NOTE: Periodically, the Division receives one-time, nonrecurring state funding. The funding is only guaranteed in the year that it is dispersed and may be used to prevent termination of services or to remove families from the waiting list. In addition, counties may use the funding to serve eligible families for a limited time period. Refer to Chapter 4: Application, Eligibility Determination and Documentation; Chapter 9: Parental Choice and Voucher Procedures; and the Child Care Voucher and Instructions (DCD-0446) for information regarding one-time funding and limited time for child care services.

IV. ALLOCATION PROCESS FOR CHILD CARE FUNDS

When allocating state and federal child care funding (excluding Smart Start), the Division of Child Development follows the allocation formula as outlined in state legislation. The first step involves estimating each county's need for subsidy funds based on the number of children under age 11 with a parent or both parents working and whose family's income does not exceed 75% of state median income. Based on the information gathered during the first step, each county's total need for funding is determined. This amount is adjusted by subtracting the amount of funding equal to 30% of the Smart Start allocation for that county which must be spent on subsidy services. The second step in the allocation formula is to distribute available subsidy funds based upon projected need figures. Since the need is greater than the amount of subsidy funding, each county receives a pro-rata share of the funding. The third step of the formula involves adjusting final formula allocations to accommodate a hold harmless factor. The hold harmless factor requires that a county's allocation shall be no less than 90% of their 2001-2002 initial Non-Smart Start Allocation.

V. SPECIAL NEEDS SET-ASIDE

In addition to giving priority to low-income working families, CCDF regulations require that states give priority to children with special needs who need child care services. DCD calculates the minimum amount from each county's subsidy allocation that is designated as a set-aside for the care of children with special needs. This figure is a part of the annual DSS Budget Package issued in February. Counties may choose to set aside an amount that is greater than the minimum required by DCD. Refer to Chapter 22: Local Policy Options for information regarding local policies. In effect, agencies will establish a separate waiting list and a separate budget for children with special needs. Additional information regarding services for children with special needs is provided in Chapter 6: Serving Children with Special Needs and Chapter 21: Payment Rates.

VI. REVERSIONS/REALLOCATIONS OF CHILD CARE FUNDS

In order to ensure that the state's allocation of state and federal funding for child care services is maximized and as many families are served as possible, funds from under spending counties are reallocated during the year. This procedure allows for redistributing money to counties who have demonstrated a need for additional funding. The guidelines for the process will be issued by the Division each year. The expenditures of both DCD and Smart Start funds are considered in the reversion/reallocation process of the DCD funds. However, NCPC develops its own procedures for the reversion/reallocation of Smart Start funds. Funds received in the reversion/reallocation process are one-time, nonrecurring funds which are guaranteed only to the end of the state fiscal year in which they are dispersed. Funds received late in the state fiscal year may be used to issue vouchers that do not extend beyond the year in which they are allocated.

At the end of the year, DCD makes a final allocation to the counties to match actual expenditures for the state fiscal year, **if funds are available**. For instance, counties that spent less than the allocation amount will have allocations reduced to the actual expenditure amount. On the other hand, overspending counties' allocations will increase according to available state and federal funds for the state fiscal year. **If state and federal funds are not available to cover the overspending, the excess expenditures become the responsibility of the LPA and if a county spends its total allocation before the end of the fiscal year, funds from the next fiscal year can not be used to cover the deficit.**

VII. MONITORING EXPENDITURES

In order to ensure that as many families as possible have access to subsidized child care services, local purchasing agency staff must monitor their spending of child care funds. Careful monitoring of spending patterns can help counties to maintain a balance of funding so that sufficient funds are available to serve the number of families receiving child care services and to add new families whenever possible. Consider the following when monitoring spending.

A. Identify high and low patterns of services provision, such as an increase in child care services in summer months and a decline in the fall.

B. Consider employment patterns that affect requests for child care, such as areas where the economy depends heavily on tourism during certain months of the year.

C. Consider the number of child care centers and homes in the county who have received a star rated license of two (2) through five (5) stars who qualify for higher subsidy payments.

If funding is being maximized and the establishment of a waiting list appears to be necessary, counties should make sure all available funds are being utilized including Smart Start and Work First Block Grant funds. For example, if there is a high level of spending for the subsidized child care funds allocated by DCD but Smart Start subsidy funds are being under spent, the LPA needs to work with the local partnership to determine how Smart Start funds can be better utilized to serve all eligible families. The Memorandum of Understanding (MOU) between the county and the partnership may be amended.

When monitoring spending of child care subsidy funds, it is helpful to determine a monthly spending coefficient. To determine the monthly spending coefficient, divide the expenditures to-date by the number of months to-date, multiply by twelve and divide by the allocation amount. The example below is provided for clarification.

NOTE: Services provided to children in June are paid for and reimbursed in July; therefore, each county’s annual allocation covers services for the months June through May.

EXAMPLE:

Annual Allocation: $773,841.00

Expenditures for June Services: $70,328.26

Year-to-date expenditures: $70,328.26 divided by one (1) month = $70,328.26 x 12 = $843,939.12 divided by $773,841 = 1.0906 or 109% ***spending coefficient for June.***

Expenditures for July Services: $71,208.15

Year-to-date expenditures: $141,536.41 divided by two (2) months = $70,768.21 x 12 = $849,218.52 divided by $773,841.00 = 1.0974 or 110% ***spending coefficient through July.***

NOTE: During the summer months, the spending coefficient may be above 100% due to the increase in the hours of care from part-time to full-time for school-age children. When the school year resumes in the fall the spending coefficient should decrease.

It is important that local purchasing agencies spend subsidized child care funds in accordance with state or federal regulations. Improper payments are not eligible for reimbursement with state and federal funds and may require corrections in the Subsidized Child Care Reimbursement System. Any agency administering the Subsidized Child Care (SCC) Program must provide records of administration of the SCC Program upon request for review by staff of local, state, or federal agencies.

VIII. SERVICES SUPPORT FUNDING

A portion of a county's initial allocation is designated for services support. In addition, DCD may designate a portion of any **new** funds that become available for allocation from Child Care and Development Funds (CCDF) or State funds during the state fiscal year for services support. The maximum amount available for services support is 4% of the county's allocation or $80,000, whichever amount is greater. If a county is reallocated funds during a fiscal year, a portion of the reallocated amount may not be designated for services support.

The use of a portion of the allocation for services support is an option a county may choose to exercise. Counties may choose to use their total allocation solely for the purchase of services, or a lesser amount may be used for services support with the remainder designated for the purchase of services. If a county chooses to reduce the amount of their services support, the DSS director must submit a written request to the Subsidy Services Section designating the amount to be used for the purchase of services. A revised funding authorization will be issued indicating the decrease in services support and the increase in funds to purchase services. The services support expenditures for June are paid for and reimbursed in July; therefore, each county’s allocation covers services support provided during the service months of June through May. The DSS – 1571 system is used by the counties to report and claim reimbursement. However, if a local partnership allocates services support funds to an agency other than the local DSS, these funds are allocated through a contract and cover services support provided during the service months of July through June. These expenditures are reported and reimbursed using the Financial Status Report (FSR) form.

The services support funding does not have restrictions on use other than the funding may be used to support staff working only with the child care program, for purposes such as salaries, employee benefits, travel, training, computers, computer software, communication and supplies. The DSS – 1571 is utilized to report costs that are incurred and paid during a month. Administrative (services support) costs must be reported based on the current system the county uses, that is, either direct charged or cost allocated. Other purchases, such as computers, computer software, and installation may be direct charged if the equipment is to be used by staff working solely with the child care program. Written requests must be submitted by the DSS director and approved by DCD and the DHHS Controller. Instructions and procedures concerning the DSS – 1571 and the request to direct charge equipment are found in the DSS Fiscal Manual. The website address for the DSS Fiscal Manual is http://info.dhhs.state.nc.us/olm/manuals/ooc/fsc/man/index.htm.