Chapter 2. Funding for Subsidized Child Care Assistance

I. CHAPTER OVERVIEW

Subsidized Child Care Assistance is provided with federal and state funds. The Division of Child Development and Early Education (DCDEE) 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 assistance 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 assistance. 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. Department of Social Services (DSS) and 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:

i. To provide financial assistance to needy families,
ii. To end dependence of needy parents by promoting job preparation, work, and marriage,
iii. To prevent and reduce out-of-wedlock pregnancies, and
iv. To encourage the formation and maintenance of two parent families.

The TANF Program gives states flexibility to make programs 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). The NC General Assembly has the authority to do this. 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 assistance. 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.

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 assistance 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 DCDEE to the North Carolina Partnership for Children (NCPC). The agency is 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 enhancement payments to providers with star ratings of 3-5, for children ages 0-5. The specifics of how the enhancements are paid, are addressed in the signed MOU.

The DSS/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 DCDEE. 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 signed by the DSS/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 DCDEE 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/LPA receives a single annual allocation of funding. DSS/LPA staff are notified by DCDEE 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/LPA directors and includes information regarding the availability of funding for all programs administered by the local department of social services.

DCDEE 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.

IV. ALLOCATION PROCESS FOR SUBSIDIZED CHILD CARE ASSISTANCE FUNDS

When allocating state and federal child care funding (excluding Smart Start), the Division of Child Development and Early Education 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/responsible adult or both parents/responsible adults working and whose family's income does not exceed the applicable federal poverty level percentage. 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. VUNERABLE POPULATIONS SET-ASIDE

In addition to giving priority to low-income working families, CCDF regulations require that states give priority to families experiencing homelessness and children with special needs who need child care services. DCDEE calculates the minimum amount from each county's subsidy allocation that is designated as a set-aside for the care of families experiencing homelessness and for 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 DCDEE. All Departments of Social Services (DSS) and Local Purchasing Agencies (LPA's) are required to prioritize these populations, create policy on how they will prioritize these families in their local policies and include whether they will or will not set aside additional funds to prioritize vulnerable populations including families experiencing homelessness and children with special needs.

Once the set-aside amount is encumbered, families experiencing homelessness and children with special needs who are currently being served should be served with funds in the DSS/LPAs regular subsidy allocation. DSS/LPAs may continue to serve new families experiencing homelessness and children with special needs who apply, if the DSS/LPA does not overspend their regular subsidy allocation. If necessary, counties must establish a separate waiting list for children and families who are in one of these vulnerable populations. For additional information refer to Chapter 6: Serving Children with Special Needs, Chapter 10: Waiting List Policy and Chapter 17: Payment Rates

VI. REVERSIONS/REALLOCATIONS OF CHILD CARE FUNDS

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 underspending 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 DCDEE and Smart Start funds are considered in the reversion/reallocation process of the DCDEE funds. However, NCPC develops its own procedures for the reversion/reallocation of Smart Start funds.

At the end of the year, DCDEE 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 DSS/LPA and if a county spends its total allocation before the end of the fiscal year, funds from the next fiscal year cannot be used to cover the deficit.

VII. MONITORING EXPENDITURES

To ensure that as many families as possible have access to subsidized child care assistance, 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 assistance and to add new families whenever possible. Consider the following when monitoring spending.

- 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.
- 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.
- Consider the number of child care centers and homes in the county who have received a star rated license of three (3) 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 DCDEE 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. In NC FAST, counties can view their allocation and expended funds for each: Smart Start, Non-Smart Start and the Set-Aside to get the total.

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.

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 NC FAST. Any agency administering the Subsidized Child Care Assistance (SCCA) Program must provide records of administration of the SCCA 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, DCDEE may designate a portion of any new funds that become available for allocation from the 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 charge or cost allocated. Other purchases, such as computers, computer software, and installation may be directly 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 DCDEE 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.

For additional information regarding policy described in this chapter, refer to:

SCCA Manual:

Chapter 6: Serving Children with Special Needs
Chapter 10: Waiting List Policies
Chapter 17: Payment Rates

NC FAST Job Aids:

SCCA - DCDEE Fund Manager: Creating Thresholds and Allocations
SCCA - DCDEE Fund Manager: Threshold Adjustments
SCCA - Fund Manager: Budget Adjustments to Fund Fiscal Year Allocations
SCCA - Fund Manager: Obligation Transfer
SCCA - Fund Manager: Setting Up Funds
SCCA - Fund Pages Guided Tour Reference Guide
SCCA - Funds Management Overview Reference
SCCA - Fund Manager: Spending Coefficient
SCCA - Funds Management Terminology Reference Guide
SCCA - Funds Pages Reference Guide
SCCA - Generating Reports in NC FAST
SCCA - LPA Fund Manager Checklist
SCCA - LPA Fund Manager: Approving County Payments