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.**