



North Carolina Department of Health and Human Services

DIVISION OF CHILD DEVELOPMENT

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Deborah J. Cassidy, Director

MEMORANDUM

TO: Directors of County Department of Social Services
Directors of Local Purchasing Agencies

FROM: Deborah J. Cassidy *J. Fain for D. Cassidy*

DATE: August 20, 2010

RE: Allocation of Child Care Subsidy Funds for State Fiscal Year 2010-2011

The purpose of this memo is to provide information about subsidy funding for your agency for the State Fiscal Year (SFY) 2010-2011. We have enclosed a chart that reflects your Non-Smart Start allocation amount, set-aside for children with Special Needs and funding for time limited vouchers through August 31.

On August 24, 2010, counties can access their initial Funding Authorization for the state fiscal year on the Division's web site at <http://www.ncchildcare.dhhs.state.nc/us/general/home.asp>. The funding authorization includes one time Non-Smart Start funding and the initial amount of Smart Start funding for counties that local partnerships allocated funds.

Please review the following information and distribute copies to management and fiscal staff in your county that are involved in the administration of the Subsidized Child Care Program.

Determination of Allocation Amount

The decrease in subsidy funds as well as changes in county demographics and average cost data in the allocation formula resulted in most counties' final allocation differing from their estimate provided in the January 2010 Estimated Budget Package. The total amount of Non-Smart Start Subsidy funds allocated through the formula process for SFY 2010-2011 was approximately \$359.5 million.

Special Provision language allows the Division to allocate up to \$20 million outside the subsidy allocation formula to prevent termination of child care services. The Division produced \$2.3 million by reverting funding from the under spending counties without a waiting list that had a projected spending coefficient less than 95% at the beginning of SFY 2010-2011. Also, the Division had \$1 million new match and \$14.1 million carried forward from the Child Care and Development Fund (CCDF) to allocate outside the formula. This resulted in over \$17 million to be allocated outside the formula. These subsidy funds were allocated to counties with projected initial spending coefficients greater than 105.9% and also to support time limited vouchers through August 31, 2010. Counties overspending will need to attrition down throughout the year to spend within their allocation.

All time limited vouchers should be coded to Fund Source 65 for services through August 31, 2010.

Quarterly Allocation Allotments

Effective SFY 2010-2011 the Non-Smart Start Subsidized Child Care allocation is distributed on a quarterly basis to better equip counties for managing funds more effectively since there is less available funding than in SFY 2009-2010. Appropriate management of the allocation quarterly is essential to maximize funding and services to families in each county. The LPA should target a sufficient number of eligible children so as to expend the quarterly allocation, but to stay within the allotted amount.

A quarterly allotment spreadsheet is provided to indicate each county's goals to bring spending in alignment with the allotted amount each quarter. County business plans must be in place by October 1, 2010 for all counties anticipated to be in the overspending category.

It is important to note that most counties that are projected to be overspending at the start of SFY 2010-2011 have allotments that decrease each quarter. (There are some exceptions to this due to time-limited vouchers that end after the first quarter impacting spending patterns.) Counties will need to plan for attrition accordingly. Counties will have the greatest opportunity for attrition after the first quarter by not filling slots left by children returning to school, and by ending services for children served on time limited vouchers.

Counties that overspend their allocation will only be reimbursed for expenditures to provide services for children served within the allocation. Reimbursement beyond the quarterly allotment will require the Department of Health and Human Services' approval. County Child Care management staff must submit justification for spending beyond the quarterly allotment and a County Business Plan will be required indicating provisions to move the spending level to within the allotment as soon as possible. Counties should notify the Division as soon as possible if they determine their quarterly allotment is insufficient to maintain services and must not terminate services to children due to lack of funding without first discussing the concern with the Division.

Counties that under spend their quarterly allocation will not have unspent funds carried forward into the next quarter. The unspent funds will revert automatically to the general subsidy funds for reallocation and disbursement.

We appreciate your assistance in meeting the Maintenance of Effort for Fiscal Federal Year 2009-2010 by extensively spending Smart Start funds for the first quarter. However, we realize that our request may have impacted your expenditures for Non-Smart Start for the quarter. Counties that project higher Non-Smart Start expenditures after the first quarter due to this reason may contact your Subsidy Services Consultant for consideration of additional funds in your remaining quarterly allotments. Counties will not be penalized for spending Smart Start funds heavily in the first quarter and must continue to maintain average ongoing Smart Start expenditures for the remainder of the year.

Managing Expenditures within the Allocation Amount

The direct services and services support funds provided in your allocation cover the service months from June 1, 2010 through the May 31, 2011. The last month of expenditures that can be claimed against your allocation is for the May 2011 service month. Subsidy services provided to children in June 2011 are paid in July and charged to your SFY 2011-2012 allocation.

We will continue to issue the monthly expenditure report for Non-Smart Start and Smart Start expenditures to assist you in fiscal planning. In addition, counties have the option of using vouchers with a specific time limit when one-time or non-recurring funding is used to provide services. Counties can use the vouchers as a strategy to stay within a sustainable spending level of their subsidy allocation.

Legislative Update

The General Assembly reduced funding for the Subsidized Child Care Program for SFY 2010-2011. In total, there is \$45.8 million less in subsidy funds available this year than last year due to a lack of ARRA funding and a budget reduction due to predicted EBT System savings. In addition, \$4 million in funds were set aside for the new attendance reporting and payment system. One-time federal stimulus funds added to the SFY 2009-2010 allocations must be expended by September 30, 2010.

Special Provision language still requires a 20% local match for any local purchasing agency that receives reallocated funds above \$25,000 in SFY 2010-2011. Since the Budget Bill did not include funding to support an increase in market rates in 2010-2011, the Division set-aside \$12.4 million to sustain the market rate increases implemented in SFY 2006-2007 and 2007-2008.

The Budget Bill still includes Special Provision language requiring the Division to provide continued child care services for parents experiencing reduced hours in employment. However, the following temporary policies were removed from Special Provision language.

- Extend the current 30 to 60 day job search policy up to 6 months when recipients experience a loss of employment.
- Provide applicants upfront job search up to 6 months that lost employment on or after October 1, 2008.
- Provide job search for recipients who completed school and are entering the job market.
- Extend the 24-month post-secondary education time limit to 36 months for recipients who lost employment since October 1, 2008, or otherwise need additional training to enhance marketable skills for job placement and who have depleted the 24-month allowable time for education.
- Allow local purchasing agencies to issue vouchers with a time limit to manage one-time or nonrecurring subsidy funds.

The General Assembly approved a reduction in Smart Start funding of \$5 million for SFY 2010-2011. Local Smart Start partnerships must continue to meet the state requirement to spend 30% of their allocation on subsidy activities. In order to meet TANF Maintenance of Effort and the Child Care Development Fund and Block Grant match requirements for SFY 2010-2011, local partnerships must expend at least \$52 million on subsidy activities.

For the More at Four Pre-kindergarten Program, the General Assembly included in the continuation budget, \$86 million in state funds and \$79.6 million in lottery funds for SFY 2010-2011 which is a reduction of \$5 million in funding for the program. In addition, the regulatory oversight functions of More at Four classrooms in private classroom settings will be transferred from the Department of Public Instruction to the Division.

Services Support

The allocation amount for services support decreased due to less funds available in the subsidy budget. The total amount allocated to services support for SFY 2010-2011 is \$19.5 million.

The formula allocation amount for your county was used to calculate the amount of services support that your agency could receive in subsidy funding. The enclosed chart lists the amount of services support for your agency.

The minimum services support amount per county remains at 5% of the county's allocation amount or \$80,000, whichever is greater. This is the maximum amount of the county's total child care subsidy funds that may be used for services support. However, counties may elect to designate less for services support and increase their direct services allocation. Services support funding amounts were not revised based upon any of the one-time funds that were allocated outside the funding formula. The Director of the Department of Social Services in each county must submit a written request to Ron Byrd, Subsidy Section Chief, if they choose to use a lesser amount, designating the amount to be used for the purchase of services.

Special Needs Set-Aside

A portion of your allocation is designated as a set-aside for serving children with special needs. The enclosed chart reflects the amount of set-aside for your county. Expenditures for subsidy services for children coded to the 400 series need codes will count towards the special needs set-aside, regardless of where the child receives care or if a higher rate is paid. The set-aside represents a minimum amount of funds you are required to spend; however, it is the Division's expectation that the funds will be expended to serve this specific group of children.

Other Special Funding Sources

Subsidy funding will continue for specific counties to cover subsidy expenditures for certain military families to support employment. The Division reviewed the expenditures for SFY 2009-2010 for the counties that served military families during this period. Some counties that served military families last year had a projected spending coefficient of over 95% for SFY 2010-2011. Additional funds were added to the initial allocation for these counties. Services for these families must be charged to fund source 25 and the Military category code 070. Other counties are encouraged to use their SFY 2010-2011 allocation to provide services for children of active duty military families, using military category codes 070 and 071. These codes allow the Division to identify the subsidy expenditures for military families whose income before exclusions exceeds the subsidy income guidelines to support employment and all other families needing services supported by all need codes and fund sources.

Due to the current budget crisis, the General Assembly made some very difficult decisions regarding funding for the Subsidized Child Care Program. Subsidy services are vital to the successful employment and educational endeavors of parents and to the safety and well-being of their children. Division staff will continue to work with child care staff through technical assistance, training and the implementation of a new attendance reporting and payment system to ensure the provision of child care subsidy services and other resources for families and children. If you have questions about the information in this letter, please contact your Subsidy Services Consultant.

DJC/SY

Enclosure

cc: Child Care Coordinators
Local Smart Start Partnerships
North Carolina Partnership for Children, Inc.