

North Carolina Department of Health and Human Services
DIVISION OF CHILD DEVELOPMENT



Michael F. Easley, Governor

Dempsey Benton, Secretary

Cynthia L. Bennett, Director

MEMORANDUM

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

FROM: Cynthia L. Bennett

DATE: August 22, 2008

RE: Allocation of Child Care Subsidy Funds for SFY 2008-2009

The purpose of this memo is to provide information about your agency's subsidy allocation amount for the State Fiscal Year (SFY) 2008-2009 and explanation of the funding. We have enclosed a chart that reflects your allocation amount and set-aside for Special Needs. Your Funding Authorization for the SFY was issued on July 31, 2008 and reflects the Non-Smart Start Non- Recurring funding allocated to some counties. If your local Smart Start partnership allocated funds to your agency, the initial Smart Start allocation was also included on the Funding Authorization.

Please review the information contained in this memo and distribute copies to management and fiscal staff in your county that are involved with the Subsidized Child Care Program.

Legislative Update

The Subsidized Child Care Program received additional funding for the current year to replace non-recurring funds and maintain current services for approximately 931 children and to remove approximately 1,110 children from the waiting list. While we received an increase of over \$15 million in Temporary Assistance for Needy Families (TANF) funding, there was a decrease in state funding in the amount of \$6,836,921, resulting in a net increase of about \$9 million in subsidy funds.

The General Assembly increased the local match requirement for counties and local purchasing agencies from 15% to 20% if a reallocation above \$25,000 or more is provided beyond the initial allocation amount. Additionally, a report is due next year to the General Assembly regarding the effects of the local match requirement on local purchasing agencies.

The Child Care and Development Fund Block Grant amounts approved by the General Assembly this year included an increase in the funding level for services support due to the increase in the

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minimum services support amount per county from \$60,000 to \$80,000. However, the percentage level of 4% remains the same. In other words, counties received services support funding at 4% of their allocation amount or \$80,000 whichever is greater. Please note this is the maximum amount that may be used for services support; counties may choose to designate less for services support and increase their direct services allocation accordingly.

The General Assembly approved additional recurring funds in the amount of \$500,000 for Smart Start. This provides approximately \$4.7 million new recurring funds for SFY 08-09. The North Carolina Partnership for Children will increase every local partnership's services base by 2% using NCPC's funding formula that includes new data for 2008-09. In addition, local Smart Start partnerships will receive an increase in their administrative funding based on NCPC's formula. A small increase will be provided to partnerships who took the incentive to become multi-county partnerships. In addition, the passage of House Bill 685 makes provision for the North Carolina Partnership for Children to carry forward unexpended funds into the next State Fiscal Year, to be reallocated to local partnerships.

The More At Four Pre-Kindergarten Program received an additional \$30 million in recurring funds to increase the number of slots. Included in Special Provision language is the requirement to produce an annual report that includes a review and comparison of the program's outcomes and longitudinal progress of children who completed the More at Four Program and children of comparable demographics and grade levels that did not participate in a More at Four Program. The report will be provided to the Joint Legislative Oversight Committee on Education. A plan must also be developed by the Office of School Readiness (OSR) to tier local More at Four slots that are in child care facilities, based on the market rates for subsidized child care.

Determination of Allocation Amount

The total amount of Non-Smart Start Subsidy funds available to allocate for SFY 2008-2009 is \$397.9 million which includes the federal carry-forward and the new funds. A total of \$12.4 million is allocated for market rate adjustments made in SFY 2006-07 and SFY 2007-08. Each county will receive the same market rate funds allocated last SFY.

The Special Provision language continues to allow the Division to allocate funds outside of the allocation formula for subsidy services to prevent the termination of services. The Division was able to revert \$2.4 million from counties without waiting lists whose projected spending coefficient was 95% or less. Approximately \$3.2 million was allocated outside the formula to prevent potential terminations of services. This movement of funds, along with updated population and average cost data in the allocation formula, means that the final allocation amount is different for some counties than the estimate provided in the February 2008 Estimated Budget Package. The inclusion of the additional subsidy funding in the allocation formula was sufficient that it also allowed some counties previously designated as "hold harmless" to exceed their hold harmless status and receive additional funding.

The Division carried forward \$3 million in non-recurring federal funding this year. We are setting aside \$1 million in reserve while allocating outside the formula \$768,374 to certain counties serving military families and \$480,753 to certain counties that assumed payment of

children previously covered by Easter Seals United Cerebral Palsy of North Carolina.

Other Special Funding Sources

Funding will be available to designated counties to cover subsidy expenditures for certain military families to support employment. The Division examined the expenditures for SFY 2007-2008 for the counties that served military families under category code 070 during this period. Some counties that served military families last year had a projected spending coefficient of over 100% for SFY 2008-2009. In these cases, the counties' military expenditures under category code 070 for SFY 2007-2008 were added to their initial allocations. These amounts are included in the Non-Smart Start funds on their funding authorizations. Services for these families must be charged to fund source 25 and the Military category code 070. Other counties are encouraged to use their 2008-2009 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 these 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.

Services Support

The allocation amount for services support increased to \$17,102,034 million this year. The formula allocation amount for your county was used to calculate the amount of services support that your agency could receive. The amount of services support money for your agency is listed on the enclosed chart.

As indicated in the Legislative Update, the General Assembly approved an increase to the minimum dollar level to \$80,000 from \$60,000. The percentage of 4% of the county's total allocation remained the same. The maximum amount for services support is 4% of the county's total allocation or \$80,000 whichever is greater. Services support funding amounts were not revised based upon any of the one-time funds that were allocated outside the funding formula. If your agency chooses to use a lesser amount for 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.

Special Needs Set-Aside

A portion of your allocation is designated as a set-aside for the purpose of serving children with special needs. The set-aside amount for your county is indicated in the last column of the attached document. We are continuing the funding previously designated for Easter Seals United Cerebral Palsy (UCP) of North Carolina to the counties that assumed payment of the children previously covered by the UCP. However, the amount is reduced to 50% of the 2007-08 UCP allocation amount to continue services for those children who remain in child care. These amounts are reflected in the Funding Authorization under Non Smart Start Non Recurring Funding and are also included in the special needs set-aside. Expenditures for subsidy services for children coded to the 400 series of 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 for services for children with special needs.

Local Match Requirement

As indicated in the Legislative Update, the local match requirement was increased by the General Assembly from 15% to 20% for counties or local purchasing agencies that are provided a reallocation of \$25,000 beyond their initial allocation amount. This means that if your county requests and receives a reallocation above \$25,000 or more, your agency must provide a match of local funds as indicated in the Administrative Letter No. 1-07 issued by the Division on April 20, 2007.

Managing Expenditures Within the Allocation Amount

In an effort to assist your agency in managing their subsidy funding for the State Fiscal Year, please be sure to utilize the following available tools: the *Worksheet for Calculating Subsidy Spending*; *Monthly Summary of Subsidized Child Day Care Services Report and 2008 County FACT sheet*. The *Worksheet for Calculating Subsidy Spending* was part of the group exercise conducted at the state-wide Fiscal Management Training provided during May and June 2008. Division staff are expanding this tool so it will adjust the county's available allocation each month based on current expenditures. As you make projections for the SFY, the Subsidy Services Consultants are available to provide guidance in planning your Strategic Fiscal Management Plan. In addition, they can provide Fiscal Management Training for county staff and local partnership staff who were not able to attend the initial training.

Agencies are encouraged to use corporate queries that are available in Business Object XI (Data Warehouse System) to create an Expenditures/Need Category Report for 2007-08. The Public folders entitled *State Sanctioned* and *Fiscal Management* contain the following queries - *Monthly Expenditures per SFY by Category Code*, *Monthly Expenditures per SFY by Need Code* and *Monthly Expenditures per SFY for Purchasing Agencies*. The queries will provide historical expenditure and statistical information for your county which will allow you to view spending patterns and make projections for SFY 2008-09. We also recommend running reports from FY's 2005-06 and 2006-07 which will provide you comparative data to assist with your projections. If you need technical assistance in running the reports from Business Objects XI or developing customized queries, please contact Carol Carnley at 919-662-4535, extension 7008 or Julia McMillian at 919-62-4535, extension 7090.

The direct services and services support funds provided in your allocation cover the services months of June 2008 through the May 2009. The last month of expenditures that can be claimed against your allocation is for the May 2009 service month. Subsidy services provided to children in June 2009 which are paid for in July will be charged to your 2009-2010 SFY allocation.

A scheduled reversion and reallocation process is not planned for SFY 2008-09; however, the Division may choose to allocate unspent funds as needed. The Division studied expenditure patterns from the previous year and distributed the initial funding in an effort to ensure that funds are available to support services currently being provided. Counties and local purchasing agencies must continue monitoring spending to maintain a service level within their allocation amount. Any expenditures beyond your subsidy allocation are the responsibility of the county and local purchasing agency.

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While the enclosed chart reflects a distinction of funds within your allocation amount, the distinction is not meant to imply that you should track expenditures differently. We request that you manage your funds as a whole. We will continue to issue the monthly expenditure report and will establish a spending co-efficient for Non-Smart Start, Smart Start and these combined expenditures to assist you in your planning.

Submitting Strategic Fiscal Management Plan

Each agency is required to complete a Strategic Fiscal Management Plan for the 2008-2009 SFY. This plan will be sent to you soon and will include instructions for completion. It is important that you schedule a meeting with your community service partners to discuss your plan and determine how children and families in your community can best be served. The plan must be reviewed by your Services Consultant and your local governing board prior to sending it to the Division. The final plan is due to the Subsidy Services Section of the Division by Wednesday, October 15.

Thank you for your commitment to provide financial assistance and resources to eligible families and children so that access to affordable quality child care is achieved. Access to affordable quality child care lays the groundwork for families' success in their work and education endeavors and allows their children to be secure and better prepared for school. We are glad to serve as a partner with you and your staff in the provision of this service and are receptive to ways you provide that helps us to better assist you. If you have questions about the information in this memo, please contact your Subsidy Services Consultant.

CLB:FL

Enclosure

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