



NC DEPARTMENT OF
**HEALTH AND
HUMAN SERVICES**
Division of Child Development and Early
Education

ROY COOPER • Governor
MANDY COHEN, MD, MPH • Secretary
ANNA CARTER • Director

7/27/18

Dear County Directors of Social Services and Local Purchasing Agencies

Attention: Child Care Coordinators, Supervisors, and Managers

Subject: Allocation of Child Care Subsidy Funds for State Fiscal Year 2018-2019

The purpose of this memorandum is to provide information about subsidized child care funding for your agency for the State Fiscal Year (SFY) 2018-2019. The attached chart reflects your initial Non-Smart Start allocation for direct services and services support.

The initial Funding Authorizations for SFY 2018-2019 will be available on the Division's web site at: <http://ncchildcare.nc.gov>. Select "County Staff" and then "Funding Authorizations" to view both this memorandum and the funding authorization chart.

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

Non-Smart Start Funding Availability for SFY 2018-2019

Non-Smart Start allocations are a blend of federal and state funds. Federal funds consist of Child Care and Development Fund (CCDF) and Temporary Assistance for Needy Families (TANF) grants. A total of \$411.18 million was available for allocation. The General Assembly increased funds for the subsidized child care program by \$30.4 million, for the purposes of increasing market rates.

IV-E funds for subsidized child care for eligible foster care children were not included in these allocations. IV-E funds will be allocated to counties' allocations throughout the year based on actual expenditures.

Legislation Impacting the Subsidized Child Care Policy and Market Rates

There were some changes made in legislation during the 2018 session in Session Law 2018-5 that impact the Subsidized Child Care Assistance Program.

1. Market Rate Increases

ADDITIONAL CHILD CARE SUBSIDY MARKET RATE INCREASES/CERTAIN AGE GROUPS AND COUNTIES

SECTION 11B.4.(b1) Beginning October 1, 2018, the Division shall increase the child care subsidy market rates to the rates recommended by the 2015 Child Care Market Rate Study for children three through five years of age in three-, four-, and five-star-rated child care centers and homes in tier three counties.

SECTION 11B.4.(c) For purposes of subsections (a) through (b1) of this section, tier one, tier two, and tier three counties shall have the same designations as those established by the N.C. Department of Commerce's 2015 County Tier Designations.

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SECTION 11B.4.(d) Beginning October 1, 2018, the Division shall increase the child care subsidy market rates to the one hundredth percentile as reported in the 2015 Child Care Market Rate Study for children birth through five years of age in three-, four-, and five-star-rated child care centers and homes in tier one and tier two counties. For purposes of this subsection, tier one and tier two counties shall have the same designations as those established by the N.C. Department of Commerce's 2018 County Tier Designations.

2. Subsidized Child Care Allocation Formula

There were no changes this year to the special provision in Session Law 2018-5 regarding the subsidized allocation formula. Counties received the amount they expended in SFY 17-18 as a base amount, which totaled \$339.3 million.

As noted in **SECTION 11B.5.(a)(2)** in last year's provision, the Division may withhold up to two percent (2%) of available funds from the allocation formula for (i) preventing termination of services throughout the fiscal year and (ii) repayment of any federal funds identified by counties as overpayments, including overpayments due to fraud. The Division shall allocate to counties any funds withheld before the end of the fiscal year when the Division determines the funds are not needed for the purposes described in this subdivision. The Division shall submit a report to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division, which report shall include each of the following:

- a. The amount of funds used for preventing termination of services and the repayment of any federal funds.
- b. The date the remaining funds were distributed to counties.
- c. As a result of funds withheld under this subdivision and after funds have been distributed, any counties that did not receive at least the amount the counties received the previous year and the amount by which funds were decreased.

The Division shall submit a report in each year of the 2017-2019 fiscal biennium 30 days after the funds withheld pursuant to this subdivision are distributed but no later than April 1 of each respective year. In accordance with this provision, DCDEE withheld \$2 million for preventing service terminations and for any repayment of federal funds throughout the year.

As noted in **SECTION 11B.5.(c)** in last year's provision, when implementing the formula under subsection (a) of this section, the Division shall include the market rate increase in the formula process rather than calculating the increases outside of the formula process. Additionally, the Department shall do the following:

- (1) Implement the final one-third change in a county's allocation beginning fiscal year 2018-2019. A county's initial allocation shall be the county's expenditure in the previous fiscal year or a prorated share of the county's previous fiscal year expenditures if sufficient funds are not available. With the exception of market rate increases consistent with any increases approved by the General Assembly, a county whose spending coefficient is less than ninety-two percent (92%) in the previous fiscal year shall receive its prior year's expenditure as its allocation and shall not receive an increase in its allocation in the following year. A county whose spending coefficient is at least ninety-two percent (92%) in the previous fiscal year shall receive, at a minimum, the amount it expended in the previous fiscal year and may receive additional funding, if available. The Division may waive this requirement and allow an increase if the spending coefficient is below ninety-two percent (92%) due to extraordinary circumstances, such as a State or federal disaster declaration in the affected county. By October 1 of each year, the Division shall report to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division the counties that received a waiver pursuant to this subdivision and the reasons for the waiver.
- (2) Effective immediately following the next new decennial census data release, implement (i) one-third of the change in a county's allocation in the year following the data release, (ii) an additional one-third of

the change in a county's allocation beginning two years after the initial change under this subdivision, and (iii) the final one-third change in a county's allocation beginning the following two years thereafter.

After funds were set aside to be allocated for market rate increases, there was \$22.68 million that was distributed through the formula to counties with spending levels of at least 92%. Then the funds for market rate increases were distributed through the formula.

Managing Expenditures within SFY 2018-19 Allocations

These initial allocations are likely different from the SFY 2018-2019 allocation estimates released early in 2018, since spending levels and the final budget amount were not known at that time. First quarter spending tends to be higher in the service months before school-age children return to school. As allowed by special provision, DCDEE will be conducting reversions and reallocations throughout SFY 2018-2019 in order to maintain services for care as much as possible. We anticipate IV-E draws throughout the year that will provide additional funds to some counties, and we realize that all counties may not have received their full Smart Start allocation for subsidized child care.

Following the allocation formula, all counties received at least the amount of Non-Smart Start funds they spent in SFY 2017-2018, plus additional funds for market rate increases. The amount of funds remaining for additional slots for SFY 2018-2019 is much higher (\$22.68 million) than in SFY 2017-2018 (\$1.8 million) due to the increase of CCDF and lower than anticipated expenditure for SFY 2017-2018. Market rate increases are also higher in SFY 2018-2019 (\$30.4 million) than in SFY 2017-2018 (\$13 million) due to changes in the Appropriations Act of 2018. Before removing children from the waiting list, counties should review how expenditures will likely increase for their current caseload when the market rates increase in October.

Note that a 20% local match for any local purchasing agency that receives reallocated funds above \$25,000 continues to be required for SFY 2018-2019. Historically, we have been able to assist counties in identifying match to qualify for reallocation and will continue to do so as may be necessary.

Allocated Funds

The direct services and services support funds provided in your allocation cover the service months from June 1, 2018 through May 31, 2019. Subsidy services provided to children in June 2018 are paid in July and charged to your SFY 2018-2019 allocation. The last month of expenditures that can be claimed against your SFY 2018-2019 allocation is for the May 2019 service month.

Special provision language regarding funds to be set aside for serving vulnerable populations continues. The requirement for the four percent (4%) set aside funds has been broadened to include other vulnerable populations as detailed in the language below. The set aside amounts are shown in the attached allocation chart and will be updated in NC FAST along with counties' SFY 18-19 allocations.

From S.L. 2017-57, Section 11B.5.(a)(3):

The Division shall set aside four percent (4%) of child care subsidy allocations for vulnerable populations, which include a child identified as having special needs and a child whose application for assistance indicates that the child and the child's family is experiencing homelessness or is in a temporary living situation. A child identified by this subdivision shall be given priority for receiving services until such time as set-aside allocations for vulnerable populations are exhausted.

Services Support funding was maintained at four percent (4%) of the allocation or \$80,000, whichever is greater. The attached chart lists the maximum amount of services support funding for your agency. However, counties may

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elect to designate less for services support and increase their direct services allocation. The DSS Director must submit a written request to Elizabeth Everette, Senior Subsidy Manager, if they choose to use a lesser amount, designating the amount to be used for the purchase of services. This request is due to Elizabeth Everette by September 30, 2018.

Special Provision Language related to an optional allowance for fraud detection and investigation initiatives continues. The maximum amount that may be used for this purpose is two percent (2%) of the direct services funds allocated to the agency. This is in addition to the four percent (4%) or \$80,000 set aside for Services Support. Counties wishing to utilize funds for fraud detection and investigation initiatives must notify Jose Merza, Subsidy Business Officer at Jose.Merza@dhhs.nc.gov, of the amount identified for these activities in writing by September 30, 2018.

Smart Start

Smart Start funds are separate from these allocations. These funds will be allocated based upon determinations made by local Partnerships and added to funding authorizations throughout the SFY as has been done in prior years. DCDEE continues to rely on Smart Start expenditures to count for CCDF and TANF Maintenance of Effort (MOE) or CCDF Match. The Division counts these expenditures for MOE or Match if the parent meets current income eligibility and needs care due to employment, seeking employment, post-secondary education or job training, or high school/GED. If Smart Start funds are administered by your agency through NC FAST, any expenditures eligible for CCDF/TANF MOE or CCDF Match are automatically identified. To assist counties in tracking these expenditures for local partnerships, county specific reports are available from Data Warehouse that identify Smart Start expenditures that are eligible for CCDF/TANF MOE and CCDF Match.

Transition to NC FAST

During SFY 2017-2018 the implementation of NC FAST was completed. All initial allocations for direct services will be entered in the funds management screens by the DCDEE Fund Manager.

For those counties that use local funds such as TANF Federal (71), TANF MOE (72), and TANF (73) - Child Only (200%), and other locally provided funds, the LPA Fund Manager should enter these funds into NC FAST.

As cases are activated in NC FAST, funds will be obligated according to priorities established by the LPA Fund Manager. Funds are obligated for the entire certification period of each child's services. Because the certification period may cross fiscal years, NC FAST will need funds and thresholds created for the current year and one future year at any time. This will be needed for both state-level and county-only funds. The values set for a future fiscal year will reflect the current year's allocation and will only be estimates. These values will be updated once the actual allocations are confirmed for the future year.

Fund Managers

NC FAST automatically determines the funds to use for child care cases based on a set of rules and fund configurations. If the characteristics of a case only qualify a case to use a specific fund (i.e., this case can only use Non-Smart Start monies), then obligations will automatically be placed against that fund. If the characteristics of the case would allow one of several funds to be used (i.e., this case qualifies for either Smart Start or Non-Smart Start monies), then the fund selected is based on the priority that the LPA Fund Manager assigns for their allocation and their current fund balance. This can be unique by LPA and can be altered throughout the year as the LPA Fund Manager deems appropriate to manage their allocation of monies by fund.

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Subsidized child care services are vital to the successful employment and educational endeavors of parents and to the safety and well-being of their children. If you have questions about the information in this letter, please contact Elizabeth Everette, Senior Subsidy Manager, at 919-527-6598 or via email at Elizabeth.Everette@dhs.nc.gov.

Sincerely,



Anna Carter
Attachment

cc: Child Care Coordinators
North Carolina Partnership for Children, Inc.