



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

**ROY COOPER** • Governor  
**KODY H. KINSLEY** • Secretary  
**ARIEL FORD** • Director

September 30, 2022

Dear County Directors of Social Services and Local Purchasing Agencies

Attention: Child Care Coordinators, Supervisors, Managers, and Other DSS Personnel who work with the SCCA Program

Subject: Allocation of Child Care Subsidy Funds for State Fiscal Year 2022 – 2023

The purpose of this memorandum is to provide information about subsidized child care funding for your agency for the State Fiscal Year (SFY) 2022 – 2023. The attached chart reflects your initial allocation for direct services and services support.

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 2022 – 2023

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 \$499.65 million was available for allocation.

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 in Session Law 2022-74 that impact the Subsidized Child Care Assistance Program.

1. Market Rate Increases

ALLOW PORTION OF CHILD CARE AND DEVELOPMENT BLOCK GRANT ARPA FUNDS FOR TEMPORARY INCREASE OF CHILD CARE SUBSIDY RATES TO 2018 MARKET STUDY RATES AND CORRECT AGENCY REFERENCE/ARPA SUBSTANCE ABUSE PREVENTION AND TREATMENT BLOCK GRANT FUNDS

SECTION 9L.2.(a) Section 9L.2(b)(1)a. of S.L. 2021-180 reads as rewritten:

"a. A minimum of two hundred six million dollars (\$206,000,000) but no more than two hundred fifteen million dollars (\$215,000,000) to (i) reduce the waitlist for children eligible for subsidized child care who are in foster care and (ii) after addressing the waitlist under item (i) of this sub-subdivision, work toward reducing the waitlist for children eligible for subsidized child care. Additionally, the Division shall use a portion of these funds to temporarily increase the child care subsidy reimbursement rates to those recommended in the 2018 Child Care Market Rate Study until the funds expire on September 30, 2024."

**NC DEPARTMENT OF HEALTH AND HUMAN SERVICES • DIVISION OF CHILD DEVELOPMENT AND EARLY EDUCATION**

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## 2. Subsidized Child Care Allocation Formula

There were no changes this year to the special provision in Session Law 2022-74 regarding the subsidized allocation formula.

As noted in SECTION 9C.5.(a) in last year's provision,

The Department of Health and Human Services, Division of Child Development and Early Education (Division), shall allocate child care subsidy voucher funds to pay the costs of necessary child care for minor children of needy families. The mandatory thirty percent (30%) North Carolina Partnership for Children, Inc., subsidy allocation under G.S. 143B-168.15(g) shall constitute the base amount for each county's child care subsidy allocation. The Department of Health and Human Services shall use the following method when allocating federal and State child care funds, not including the aggregate mandatory thirty percent (30%) North Carolina Partnership for Children, Inc., subsidy allocation:

- (1) Funds shall be allocated to a county based upon the projected cost of serving children under age 11 in families with all parents working who earn less than the applicable federal poverty level percentage set forth in Section 9C.4(a) of this act. Senate Bill 105 Session Law 2021-180 Page 193
- (2) 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 2021-2023 fiscal biennium 30 days after the funds withheld pursuant to this subdivision are distributed but no later than April 1 of each respective year.
- (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.

SECTION 9C.5.(b) The Division may reallocate unused child care subsidy voucher funds in order to meet the child care needs of low-income families. Any reallocation of funds shall be based upon the expenditures of all child care subsidy voucher funding, including North Carolina Partnership for Children, Inc., funds within a county. Counties shall manage service levels within the funds allocated to the counties. A county with a spending coefficient over one hundred percent (100%) shall submit a plan to the Division for managing the county's allocation before receiving any reallocated funds.

SECTION 9C.5.(c) 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) Deem a county's initial allocation as 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.
- (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.

All counties received the amount expended in the previous fiscal year as their base allocation. There was \$59 million remaining in unspent direct services dollars from last fiscal year and \$50 million from the Child Care and Development Block Grant ARPA Funds to increase market rates. This totaled \$109 million that was distributed through the allocation formula for all counties. The remaining Child Care and Development Block Grant ARPA Funds will be distributed in the future until those funds expire on September 30, 2024.

#### Managing Expenditures within SFY 2022-2023 Allocations

These initial allocations are likely different from the SFY 2022-2023 allocation estimates released earlier in 2022 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 as needed throughout SFY 2022-2023 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.

#### Allocated Funds

The direct services and services support funds provided in your allocation cover the service months from June 1, 2022 through May 31, 2023. Subsidy services provided to children in June 2022 are paid in July and charged to your SFY 2022-2023 allocation. The last month of expenditures that can be claimed against your SFY 2022-2023 allocation is for May 2023 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 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.

Services support funding was maintained at four percent (4%) of the allocation or \$80,000, whichever is greater. These funding totals are included in the attached fund authorization. Counties may elect to designate less for services support and increase their direct services allocation. The DSS Director must submit a written request to Elizabeth Everette, Assistant Director, 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 in writing at [Elizabeth.Everette@dhhs.nc.gov](mailto:Elizabeth.Everette@dhhs.nc.gov) by October 31, 2022.

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 county. 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 Elizabeth Everette, Assistant Director at [Elizabeth.Everette@dhhs.nc.gov](mailto:Elizabeth.Everette@dhhs.nc.gov) of the amount identified for these activities in writing by October 31, 2022.

### Smart Start


Smart Start funds are 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.

### 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.

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, Assistant Director via email at [Elizabeth.Everette@dhhs.nc.gov](mailto:Elizabeth.Everette@dhhs.nc.gov).

Sincerely,



Ariel Ford

Attachment