



**COMMONWEALTH OF VIRGINIA  
DEPARTMENT OF SOCIAL SERVICES**

December 15, 2005

To:           The Honorable Mark R. Warner

              The Honorable Vincent F. Callahan, Jr., Chair  
              House Appropriation Committee

              The Honorable Phillip A. Hamilton, Chair  
              Health, Welfare and Institutions Committee

              The Honorable John H. Chichester, Chair  
              Senate Finance Committee

              The Honorable Emmett W. Hanger, Jr., Chair  
              Rehabilitation and Social Services Committee

The attached report is submitted pursuant to § 63.2-620 of the *Code of Virginia*. Section 63.2-620 directs the Department of Social Services to report on strategies for Virginia to obtain the maximum amount of federal funds available for child care services to recipients of Temporary Assistance for Needy Families and other low-income families. A description of Virginia's child care program and strategies for maximizing federal funds for child care are identified in the attached report.

Respectfully submitted,

A handwritten signature in black ink that reads "Anthony Conyers, Jr." with a stylized flourish at the end.

Anthony Conyers, Jr.  
Commissioner

## **Annual Report on Obtaining the Maximum Available Federal Funding for Child Care Services**

### **Study Mandate**

This status report is submitted pursuant to Section 63.2-620 of the Code of Virginia, which requires the Department of Social Services (Department) to:

*“...identify strategies for Virginia to obtain the maximum amount of federal funds available for child day care services for TANF recipients and families whose incomes are at or below 185 percent of the federal poverty level. The Department shall provide an annual report on these strategies to the chairmen of the House Committees on Appropriations and Health, Welfare and Institutions and Senate Committees on Finance and Rehabilitation and Social Services by December 15.”*

### **Federal Funding for Child Care Services**

The Department of Social Services receives child care funds from two federal funding sources, the Child Care and Development Fund (CCDF) and the Temporary Assistance for Needy Families (TANF) block grant. Funding from CCDF is awarded in three categories: Mandatory, Matching and Discretionary. As a supplement, a percentage of the TANF block grant is transferred to CCDF annually to help support TANF families requiring child care.

#### Mandatory Funds

Mandatory funds are 100 percent federal funds authorized by section 418(a)(1) of the Social Security Act. Virginia receives an annual award of \$21,328,766. Mandatory funds are used to match General Fund dollars that Virginia must spend in order to meet the required Maintenance of Effort (MOE) by the fourth quarter of each federal fiscal year (FFY).

#### Matching Funds

Matching funds are authorized pursuant to section 418(a)(2) of the Social Security Act. Funds are allocated based on the current Federal Medical Assistance Percentage (FMAP)<sup>1</sup> rate and are available to states that obligate their Mandatory funds within the FFY in which they are received. State, local or donated funds can be used to satisfy the match requirement. Matching funds must be obligated by September 30<sup>th</sup> of the year in which funds are received and liquidated by the last day of the following fiscal year.

At least 70 percent of the Mandatory and Matching funds must be spent on families receiving TANF, transitioning from TANF, or low income families at risk of becoming TANF recipients.

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<sup>1</sup> For FFY 2004 the FMAP rate was 50 percent.

### Discretionary Funds

Discretionary funds are 100 percent federal funds, formerly known as the Child Care and Development Block Grant (CCDBG), authorized in section 658B of the Child Care and Development Block Grant Act. Funds awarded in this category are used to enhance the overall quality and availability of child care. States must spend no less than four percent on activities that meet the definition of quality as indicated in the CCDF regulations.<sup>2</sup> As part of the allocation, the federal government has earmarked a specific amount of funds to be used in the following areas: Infants and Toddlers; School Age Children; Research and Referral; and Quality Expansion. Discretionary funds must be obligated by September 30<sup>th</sup> of the year following the year in which the funds are received and liquidated within one year after the obligation period ends.

States may spend no more than five percent of their cumulative Mandatory, Matching (federal and state shares) and Discretionary annual awards on administrative activities.

### TANF Transfer

A state may transfer up to 30 percent of its TANF block grant for a federal fiscal year to CCDF and the Social Services Block Grant (SSBG) programs. However, a state may transfer no more than 4.25<sup>3</sup> percent of the TANF block grant amount for a fiscal year to SSBG. In addition, a state may set aside a portion of the allowable 30 percent transfer for the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21) grant program. A maximum of 2.5 percent of the block grant funds may be used for the TEA – 21 grant program.

Once a state transfers TANF funds to another program, it must use the funds in accordance with the rules of the receiving program. Virginia transfers the maximum allowable amount each year to SSBG. Virginia transfers a percentage of the TANF block grant to CCDF annually after deducting transfers to SSBG and the TEA – 21 grant program. The funds transferred to CCDF are reported as part of the Discretionary funds (100 percent federal) and are spent in accordance with CCDF federal regulations.

### Available Amounts

Since FFY 1999, the amount of Mandatory funds awarded to Virginia has remained level at \$21,328,766, while the allocation for the Matching award has slightly increased. The allocation for the Discretionary award decreased for FFY 2005. Table 1 outlines the amounts of Virginia's available CCDF funding for FFY 1999 through FFY 2005.

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<sup>2</sup> The 4 percent quality requirement is based on the aggregated total of the Mandatory, Matching (both federal and state shares) and the Discretionary awards including earmarks.

<sup>3</sup> Amendments have been passed each year to allow a 10% transfer to SSBG.

**Table 1**  
**VIRGINIA'S FEDERAL CCDF FUNDING**  
**FFY1999 – FFY 2004**

<b>Federal Fiscal Year</b>	<b>Mandatory Award</b>	<b>Matching Award</b>	<b>Discretionary Award</b>
1999	\$21,328,766	\$22,316,933	\$19,413,679
2000	\$21,328,766	\$26,811,173	\$22,717,260
2001	\$21,328,766	\$31,734,985	\$32,843,777
2002	\$21,328,766	\$35,556,003	\$35,056,434
2003	\$21,328,766	\$35,556,003	\$34,462,927
2004	\$21,328,766	\$36,137,995	\$34,928,467
2005	\$21,328,766	\$36,137,995	\$34,544,354

### **Eligible Recipients of Child Care Subsidies**

Virginia classifies child care subsidies into three categories: TANF, Transitional and Fee Child Care.

#### TANF Child Care

TANF Child Care is a mandated service available to TANF families who need child care while the adult is working or in an approved education or training activity. No co-payment is required.

#### Transitional Child Care

Transitional Child Care is a mandated service available for up to 12 months after a recipient stops receiving TANF if child care is needed to maintain employment. Eligibility determination is the same as for Fee Child Care clients. A 10 percent co-payment is required. Once the 12 months of Transitional Child Care have expired, the family may receive Fee Child Care, provided funding is available. In some localities, because of the lack of funding, post-TANF families must go on a waiting list for child care services.

#### Fee Child Care

Fee Child Care is a non-mandated service offered to low income families who are at risk of becoming eligible for TANF. Services can be offered as long as funding is available. The family is required to pay a 10 percent co-payment.

### **Impacts of Not Maximizing Federal Funding**

#### Waiting Lists

As of November 1, 2005, Virginia had 4,050 families waiting for child care services. In SFY 2004, the Department implemented policy that requires local departments of social services to uniformly pre-screen families who may potentially be eligible for child care. Only those families who pass the pre-screening are added to the waiting lists. Without more funding, localities will not be able to reduce their waiting lists and prevent low income families from becoming potential TANF recipients. In addition, families reaching their twelve month limit for Transitional Child Care may experience a break in services and be placed on a waiting list until child care becomes available.

### TANF Reauthorization

Although reauthorization of the TANF law was due to occur in October 2002, Congress has not yet passed legislation. There is a continuing resolution in effect. When reauthorization does occur, a “universal engagement” mandate will require more TANF families with younger children to participate in more work activity hours. This, in turn, will require more child care funding to support the required additional hours of mandated activities. Even without reauthorization, child care expenditures for TANF families continue to increase, as the TANF caseload increases. TANF child care expenditures from SFY 2004 to SFY 2005 increased 21%. Without additional state investment, funding will have to be diverted away from Fee Child Care, particularly when the expected increase in work requirements for TANF takes effect. Further reducing the amount of funding available for Fee Child Care may increase the risk of those families becoming TANF families.

### **Maximizing the Use of Federal and State Child Care Funding in Virginia**

#### Utilization of Pre-Kindergarten (Pre-K) Expenditures

Pursuant to §98.53(h)(3) of the Child Care and Development Fund federal regulations:

*“In any fiscal year, a State may use public Pre-K funds for up to 20 percent of the funds serving as maintenance –of–effort...In any fiscal year a State may use other public Pre-K funds for up to 20 percent of the expenditures serving as the State’s matching funds...”*

The Department can use Pre-K expenditures to help satisfy both the State’s MOE requirement and to represent the nonfederal share of the CCDF Matching award. Presently, the Department receives a report twice a year from the Department of Education (DOE) which identifies DOE’s State-only public Pre-K expenditures that are eligible to be claimed as the nonfederal share the Match award. Up to 20 percent of the qualifying expenditures can be used for MOE as long as Virginia does not reduce its spending for full day/full year child care services. For FFY 2004, the State reported \$7,227,599 in Pre-K expenditures towards the CCDF Matching award and \$4,265,752<sup>4</sup> in Pre-K expenditures as MOE for CCDF. The CCDF award for FFY 2005 is still open, so expenditures that qualify for Matching and MOE are not final.

#### General Fund Appropriation

The total General Fund appropriation for CCDF is \$35,978,414. This appropriation includes \$16,800,000 for TANF child care, \$16,561,677 for Fee child care and \$2,616,737 for Licensing program staff. This amount, combined with local match dollars expended for mandated TANF and non-mandated Fee child care services (\$7,130,787 in SFY 2005) and DOE Pre-K dollars are used to meet the CCDF MOE and Matching award requirements. In addition, some localities are able to invest local-only dollars to expand child care services to Fee families. In SFY 2005, another \$17,827,886 in local expenditures were used as match for Federal Pass-through funds that were available. This method of blending funds from state appropriation, local match dollars, Pre-K expenditures and local Pass-through expenditures allows the Commonwealth to maximize all federal CCDF monies that are available. While the annual

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<sup>4</sup> 20 percent of the required MOE of \$21,328,766 for CCDF

General Fund appropriation alone is not sufficient to draw and expend the entire Matching award on an annual basis, the flexibility in drawing and spending CCDF Matching award funds over a 24 month period means the Commonwealth is able to expend its award completely and timely.