COMMONWEALTH of VIRGINIA
DEPARTMENT OF SOCIAL SERVICES
Office of the Commissioner

Anthony Conyers, Jr.
Commissioner

December 15, 2006

TO: The Honorable Timothy M. Kaine
Governor of Virginia

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

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

The Honorable John H. Chichester, Chairman
Senate Finance Committee

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

FROM: Anthony Conyers, Jr. Anthony Conyers Jr.

SUBJECT: Annual Report on Maximizing Federal Child Care Funds

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 funding sources are included in the report, as well as strategies for maximizing federal funds for child care.

AC:kc

Attachment

7 North Eighth Street • Richmond, VA 23219-3301
http//www.dss.virginia.gov
(804) 726-7000 Fax: (804) 726-7015 TDD: (800) 828-1120

Annual Report on Obtaining the Maximum Available Federal Funding for Child Care Services
December 15, 2006

Study Mandate

This status report is submitted pursuant to § 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) [1] 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 30th 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.

[1] For FFY 2006, 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. [2] 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 30th 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 [3] 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 21st 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 moderately increased. The allocation for the Discretionary award after earmarks decreased for FFY 2006. Table 1 outlines the amounts of Virginia's CCDF funding for FFY 1999 through FFY 2006.

---

[2] The four percent quality requirement is based on the aggregated total of the Mandatory, Matching (both federal and state shares) and the Discretionary awards including earmarks.

[3] Amendments have been passed each year to allow a 10 percent transfer to SSBG.

Table 1 VIRGINIA'S FEDERAL CCDF FUNDING FFY 1999 – FFY 2006			
Federal Fiscal Year	Mandatory Award	Matching Award	Discretionary Award
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
2006	$21,328,766	$41,312,418[4]	$34,166,579

Impacts of Not Maximizing Federal Funding

Waiting Lists

As of November 1, 2006, Virginia had 8,754 families waiting for child care services. In 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.

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

Utilization of Pre-Kindergarten (Pre-K) Expenditures

Pursuant of §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 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

[4] Included $70,880 of supplemental matching funds reallocated to Virginia from other states. The Department distributed the supplemental funds to local departments of social services as pass-through monies. Leveraging the supplemental matching funds as pass-through allowed the Department to provide a total of $141,760 in additional direct services to Virginia children.

services. For FFY 2005, the state reported $3,000,000 in Pre-K expenditures towards the CCDF Matching award and $4,265,752 in Pre-K expenditures as MOE for CCDF. The CCDF award for FFY 2006 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 $42,332,347. This appropriation includes $25,534,079 for TANF child care, $14,181,531 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 ($7,417,708) 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 2006, another $19,517,509 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 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.

TANF Reauthorization and the Impact on Child Care

The federal Child Care and Development Fund (CCDF) was reauthorized in 2006, with no new program requirements. However, CCDF spending is directly impacted by new TANF requirements that extend work participation requirements to clients previously exempt, while also tightening application of prior year caseload reduction credits. A portion of the CCDF award must be spent on child care subsidies for TANF families, TANF families who are transitioning off of TANF, and other low-income working families who are at risk of becoming TANF families. CCDF is severely under-funded in light of the significant increase in the need for child care assistance by TANF families who will now be required to work.

- CCDF reauthorization included a $1 billion increase in CCDF funding over five years. The Congressional Budget Office estimates that $12 billion will be required nationwide to fund child care due to the new TANF work requirements and inflation. Virginia's share of this for 2006 was $5,103,543 in matching funds. Unless this is addressed legislatively, it is anticipated that this will remain constant through 2010.
- Tight budgets in recent years have caused some states to reduce the number of families served through subsidies, to increase eligibility limits for families, increase family co-payments or reduce expenditures to increase the quality of child care. Virginia has not implemented such actions; however, Virginia's payment rates to child care providers lag behind the market rate for care.
- Reauthorization of TANF will require using more funds for child care for TANF families. Without additional federal funds that do not require corresponding state matching funds, Virginia will have to reduce the amount available for subsidies for non-TANF low-income

working families and limit investment in quality in order to meet the mandate. This may put many families at increased risk of becoming TANF families, which will increase the overall costs for TANF and CCDF. Virginia may also have to pass on more of the cost of child care subsidies to the localities.

- In past years, federal funds not matched with state dollars have been made available to local departments as pass-through" funding, with localities supplying the required 50 percent match. The availability of pass-through funding has significantly decreased over the past year as a result of limited availability of federal funds, increases in child care subsidy rates, and the growth in caseloads for both mandated and non-mandated services.

Conclusion

The Department's strategies for maximizing federal funds available for child care have remained consistent and successful for the past several years, as indicated in the annual reports. Utilization of Pre-K expenditures, use of local-only funds to maximize federal funding that requires a state match, and blending of general funds with other sources allow the Department to stretch available funds are far as possible in an effort to serve the Commonwealth's low-income child care needs. While the reauthorization of TANF and CCDF presents challenges relative to child care funding, the Department will continue to seek ways of maximizing available funds to the fullest extent possible.