

A report of the
Department of Social Services
Commonwealth of Virginia

**ANNUAL REPORT ON
OBTAINING THE MAXIMUM
AVAILABLE FEDERAL FUNDING
FOR CHILD CARE SERVICES**

to the Governor and the
General Assembly of Virginia

December 2007



COMMONWEALTH OF VIRGINIA
DEPARTMENT OF SOCIAL SERVICES
Office of the Commissioner

Anthony Conyers, Jr.
COMMISSIONER

December 15, 2007

MEMORANDUM

TO: The Honorable Timothy M. Kaine
Governor of Virginia
The Honorable Vincent F. Callahan, Jr., Chairman
House Appropriations Committee
The Honorable Phillip A. Hamilton, Chairman
House Health, Welfare and Institutions Committee
The Honorable John H. Chichester, Chairman
Senate Finance Committee
The Honorable Emmett W. Hanger, Jr. Chairman
Senate Rehabilitation and Social Services Committee

FROM: Anthony Conyers, Jr.

SUBJECT: Annual Report on Obtaining the Maximum Available Federal Funding for Child Care Services

I am pleased to submit the Department of Social Services' annual 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. This report was prepared pursuant to § 63.2-620 of the Code of Virginia.

If you have questions or need additional information concerning this report, please contact me.

AC/lrm

Preface

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.

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Executive Summary

The Department of Social Services (Department) is obtaining the maximum amount of federal funds available for child care services. Strategies employed by the Department include: approved state plan; timely filing of reports; interaction with federal regional office, including technical assistance; seeking additional funds to be re-allocated to Virginia when not used by other states; and monitoring to ensure compliance with all requirements and therefore losing no funds.

When this annual report was first required, Virginia was experiencing difficulty in claiming and matching all available federal funds. By combining state and local matching opportunities, all available monies have been obtained over the past several years.

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

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When this annual report was first required, Virginia was experiencing difficulty in claiming and matching all available federal funds. By combining state and local matching opportunities, all available monies have been obtained over the past several years as is reflected on the following table which shows Virginia's Federal CCDF Funding:

VIRGINIA'S FEDERAL CCDF FUNDING			
FFY 1999 – FFY 2007			
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	\$34,166,579
2007	\$21,328,766	\$41,748,302*	\$39,014,026

* Includes \$75,811 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 \$151,622 of additional direct services to children in Virginia.

The funding streams reflected on the table above are described below:

Mandatory Funds

Mandatory funds are 100% federal funds authorized by § 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 by § 418(a)(2) of the Social Security Act. Funds are allocated based on the current Federal Medical Assistance Percentage (FMAP) rate and are available to states that obligate their Mandatory funds within the FFY in which they are received. For FFY 2007 the FMAP rate was 50%. 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% of the Mandatory and Matching funds must be spent on families receiving Temporary Assistance for Needy Families (TANF), transitioning from TANF, or low income families at risk of becoming TANF recipients.

Discretionary Funds

Discretionary funds are 100% federal funds, formerly known as the Child Care and Development Block Grant (CCDBG), authorized in § 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 4.0% on activities that meet the definition of quality as indicated in the Child Care and Development (CCDF) regulations. The 4.0% quality requirement is based on the aggregated total of the Mandatory, Matching (both federal and state shares) and the Discretionary awards including earmarks.

As part of the allocation, the federal government has targeted a specific amount of funds to be used in the following areas: Infants and Toddlers; School Age Children and Research and Referral activities; 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.

Note: States may spend no more than 5.0% of their cumulative Mandatory, Matching (federal and state shares) and Discretionary annual awards on administrative activities.

Federal Funding for Child Care Services

The Department receives child care funds from two federal funding sources, CCDF and TANF block grants. Funding from CCDF is awarded in three categories: Mandatory, Matching and Discretionary. A percentage of the TANF block grant, based on need and availability of funds, maybe transferred to CCDF annually as a supplement to help support TANF families requiring child care. The CCDF was reauthorized in February, 2005 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.

CCDF is under-funded in light of the increase in the need for child care assistance by TANF families who will now be required to work:

- Seventy percent 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 reauthorization included a \$1 billion increase in CCDF funding over five years despite Congressional Budget Office estimates that \$12 billion is necessary nationwide to fund child care due to the new TANF work requirements and inflation. Virginia's share

for 2007 was \$5,534,496 in matching funds. Unless this funding shortfall is addressed legislatively, we anticipate the shortfall will remain constant through 2010.

- Tight budgets in recent years have caused some states to reduce the number of families served through subsidies, 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. Virginia's payment rates to child care providers, however, lag behind the market rate for care.
- Reauthorization of TANF may require more funds to be used 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 to meet only the mandate. This may put many families at increased risk of becoming TANF families, which will increase the overall costs for TANF and CCDF.
- 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% match. The availability of pass-through funding has significantly decreased over the past year. This decrease in funding has negatively impacted child care resulting in limited availability of federal funds and growth in caseloads for both mandated and non-mandated services.

TANF Transfer

A state may transfer up to 30% 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 4.253% 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% transfer for the Transportation Equity Act for the 21st Century (TEA-21) grant program. A maximum of 2.5% 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 programs. In SFY 2007, \$5.3 million was transferred from TANF to the CCDF Program. The funds transferred to CCDF are reported as part of the Discretionary funds (100% 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. The table on page 1 outlines the amounts of Virginia's available CCDF funding for FFY 1999 through FFY 2007.

Impacts of Not Maximizing Federal Funding

As of September 30, 2007, Virginia had 6,405 families waiting for child care services. In 2004, the Department implemented policy requiring local departments of social services to uniformly screen families who may potentially be eligible for child care. Only those families who pass the 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 who reach their 12 month limit for Transitional Child Care may experience a break in services and be placed on a waiting list until child care becomes available.

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 Expenditures serving as the State’s matching funds...

The Department can use Pre-K expenditures to help satisfy both MOE requirements and to serve as 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% 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. The CCDF award for FFY 2007 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 \$54,261,492. This appropriation includes \$23,695,568 for TANF child care, \$15,538,498 for Fee Child care and \$1,793,248 for licensing program staff. This amount, combined with local match dollars expended for mandated TANF and non-mandated Fee child care services (\$7,034,164) 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 2007, another \$6,244,105 in local expenditures was used as match for Federal and state pass-through funds that were available.

Conclusion

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.