

**Report to the North Carolina Senate and House Appropriations Committees on
Health and Human Services and the Fiscal Research Division Regarding
Child Care Funds Matching Requirement**

I. Purpose of Report

Section 10.17(a) of S.L. 2007-32 continued the 15% local match requirement for local purchasing agencies that was implemented in 2006. The match is required in order for a local purchasing agency (typically a county department of social services) to receive reallocated subsidized child care funds beyond \$25,000 of their initial allocation.

Section 10.17(b) of S.L. 2007-32 requires the Department of Health and Human Services (DHHS) to evaluate the impact of the matching requirement on local purchasing agencies and whether the matching requirement should be adjusted. DHHS is required to report its findings and recommendations to the Senate Appropriations Committee on Health and Human Services, the House of Representatives Appropriations Subcommittee on Health and Human Services, and the Fiscal Research Division no later than April 1, 2008.

II. Implementation of Requirement for Local Matching Funds

The local match requirement was developed to enhance existing partnerships among the Department of Health and Human Services' Division of Child Development and local purchasing agencies to meet increased demand for subsidized child care. The primary objectives of the new requirement were that counties share responsibility in finding additional resources when county spending exceeds allocated funding levels and to expand the pool of funds available to serve children in need of subsidy services. Under this provision counties are required to provide a match of 15% for any funds reallocated in excess of \$25,000.

The types of funds that qualify as local match are as follows:

- County or local government funding;
- Temporary Assistance to Needy Families (TANF) Maintenance of Effort (MOE) funds spent within the current state fiscal year;
- Smart Start funds provided by the local Smart Start partnership that exceed the 30% required to be spent for child care subsidy services; and
- Private donations.

Expenditure codes have been created for use in the Subsidy Reimbursement System that allow local purchasing agencies to enter data about the expenditure of these local funds, which then allows the Division to track the expenditure of these funds throughout the state fiscal year.

III. Impact of Local Match Requirement

During the course of the state fiscal year, the Division has the option to assess child care subsidy funding from counties that do not appear to be on track to spend all of their annual subsidy allocation. These unspent funds are then reallocated to counties that request additional funds to complete the current year. If an agency receives a reallocation of subsidy funding that is in excess of \$25,000 beyond the agency's initial allocation amount, the additional funds are subject to the local match requirement.

Thus far, during the 2007 - 2008 State Fiscal Year, the Division of Child Development has had a total of \$1,473,679 available to reallocate to counties as a result of a reversion and reallocation process. There were 25 counties that received a reallocation, of which 14 were required to provide a local match. The total amount of local matching funding required for these 14 counties was \$158,231.

IV. Expenditure of Local Funds Not Required as Local Match

Counties have the option to spend local funds throughout the year, regardless of whether the funds are required as local match. For the 2007-2008 State Fiscal Year, expenditures totaling \$1,460,426 have been reported as "other funds" spent on subsidy services through January 2008. According to the data reported in the Subsidy Reimbursement System, the expenditure amounts and fund sources were as follows:

Local Funds -	\$ 219,235
Work First (TANF Maintenance of Effort) -	\$1,065,697
TANF Federal* -	\$ 3,217
TANF (200% Poverty) *-	\$ 172,277

**Counties have the option to spend these funds on child care subsidy services; however, they do not count as local match since they originate from federal funds.*

V. Recommendation

Due to the minimal amount of statewide funding available to reallocate, the amount of local match required thus far in the 2007-2008 SFY was not significant; however, DHHS recommends continuing the local match requirement for SFY 08-09 for the following reasons:

- Counties eligible for a reallocation that were required to provide a local match did not report any difficulties with being able to meet match requirements.
- The combination of the match requirement and the Subsidy Reimbursement System enhancements (expenditure codes added) that allow the collection of data about other funding sources indicates that local purchasing agencies are spending other funds on child care subsidy services.