

I. CHAPTER OVERVIEW

Subsidized Child Care Services are provided with federal and state funds. The Division of Child Development (DCD) administers both types of funding. This chapter describes how these funds are appropriated and distributed to counties through an annual allocation process.

II. FUNDING SOURCES

There are three federal funding streams that help pay for child care services in North Carolina. These federal funds are combined with state funding to create a seamless child care program for families who need help in paying for care. By combining funds at the state level, local purchasing agencies do not need to track federal funding sources or categories within federal funding sources. An explanation of the federal funds and the eligibility criteria for each is provided below.

A. Federal Funds

1. Child Care and Development Fund (CCDF)

The Child Care and Development Fund is the largest source of federal funding available for child care services. This funding can be used to pay for child care to support education, training and employment.

The CCDF has three funding components: mandatory, matching and discretionary. Each state is required to spend 70% of the mandatory/matching allocation for families who are receiving public assistance, families who are attempting through work activities to transition off public assistance, and families who are at risk of becoming dependent on public assistance. The discretionary funds can be used for other income-eligible families who are working or in education and training activities. Local purchasing agencies (LPA) do not have to track the 70% requirement. This is done at the state level. A state match is required for the matching portion of this funding.

Funds are also used for payment of initiatives such as activities to support inclusion of children with special needs, expansion of before/after-school child care services and resource and referral services. In addition some of the CCDF monies received by the state must be spent to improve the quality of child care. These funds are distributed through contracts and grants.

2. Temporary Assistance for Needy Families (TANF)

The Temporary Assistance for Needy Families (TANF) Program is a federal block grant program that provides financial assistance to needy families and offers supportive services to help families achieve self-sufficiency. The Department of Health and Human Services (DHHS) must use the available TANF funds for eligible, needy families with a child for the following purposes:

- a. To provide financial assistance to needy families;
- b. To end dependence of needy parents by promoting job preparation, work and marriage;
- c. To prevent and reduce out-of-wedlock pregnancies; and
- d. To encourage the formation and maintenance of two parent families.

The TANF Program gives states flexibility to make program and funding decisions to best support the goals of their individual state programs. Funds can be used to provide support services including child care. Federal regulations allow states to transfer up to 30% of their TANF funding for a fiscal year to the Child Care and Development Fund (CCDF) and/or the Social Services Block Grant program (SSBG). For the last few years, the North Carolina General Assembly has transferred TANF funds to the CCDF program for subsidized child care services. When transferred to CCDF these funds may then be used like CCDF to support employment, education and training. These funds are included in each county's annual child care allocation. The NC General Assembly also appropriates additional TANF funds for child care which are not transferred to the Child Care and Development Fund (CCDF), but are included in each county's annual allocation. These funds may be used only for child care to support employment.

County departments of social services may choose to use their local Work First Block Grant funds for child care services. If a county chooses to spend Work First funds for child care, the policies described in this manual apply to the funding. For additional information about the procedures for spending Work First funds for child care, refer to the [Work First Family Assistance Manual](#).

3. Social Services Block Grant (SSBG)

Social Services Block Grant funding is available to fund various social services, including foster care and adoption services, child protective services, adult day care, adult health and in-home aide services, transportation services, and child care services. DCD administers the SSBG funding for child care services while the Division of Social Services administers the funding used for other social services. A state match is not required for this funding source when it is used for child care.

SSBG funding may be used to pay for child care services when needed for one of the following reasons:

- a. The child's parents are employed or in education or training activities.
- b. The child is receiving protective services or child welfare services.
- c. The child is at risk of being developmentally delayed.
- d. The family is experiencing a crisis.

B. State Funds

State child care funds are appropriated annually by the North Carolina General Assembly. These funds may be used to pay for child care services for any of the reasons listed above under SSBG. These state funds are blended with CCDF, TANF and SSBG funds to make up each county allocation.

C. Smart Start Funds

State [Smart Start](#) funds are appropriated annually by the North Carolina General Assembly. The funding for Smart Start flows from DCD to the [North Carolina Partnership for Children \(NCPC\)](#). NCPC is the agency charged with allocating Smart Start funds to the local partnerships and providing technical assistance about the Smart Start Program.

Each partnership receives Smart Start funding in an allocation from NCPC to provide child care, health care and other critical family services for children under age six (6). Each partnership must use at least 30% of their funding to expand child care subsidies. The 30% requirement can be met in a variety of ways. For example, partnerships may choose to use this funding to serve eligible families on waiting lists, to pay for preschool or [Head Start Wrap Around](#) services, and to augment the subsidy payment rate per child by paying quality bonus payments for children ages 0 through five (5) who are in facilities with a two through five [Star Rated License](#).

The local purchasing agency (LPA) is notified by their local Smart Start partnership of the amount allocated for subsidy voucher activities and other activities such as quality bonus payments; however, the Smart Start funds are not available to spend until a funding authorization is received from DCD. The exact amount of the percentages for the Smart Start quality bonus is also determined by each local partnership. A Memorandum of Understanding (MOU) is recommended to be signed by the LPA and local Smart Start partnership to clearly identify how these funds are to be used as well identify any reports that are needed. Smart Start funds may be allocated for child care and services support. These allocated funds have the same state fiscal year as DCD allocated funds, which runs from July 1 through June 30 for service months June through May.