

STATE SPENDING UNDER THE FISCAL YEAR 2002 APPROPRIATION FOR
CHILD CARE AND DEVELOPMENT FUND (CCDF)
AS OF 9/30/2002

Background:

Under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, the Child Care and Development Fund makes available to States three child care funding streams: Mandatory, Matching and Discretionary. Each of these funding streams requires that the States meet specific financial requirements.

The **Mandatory** fund is 100 percent Federal funds. No State match is required. Mandatory funds are available until expended. To qualify for its share of the Matching funds, a State must obligate its Mandatory funds by the end of the Federal Fiscal Year (FY).

The **Matching** fund must be matched by a State at its applicable Federal Medical Assistance Percentage (FMAP) rate. In order to receive Matching funds a State must (1) obligate its Mandatory funds by 9/30; and (2) expend State funds equal to its State Maintenance of Effort (MOE) level. Matching funds must be fully expended in two years.

The **Discretionary** fund is 100 percent Federal funds. No State match is required. Discretionary funds must be obligated in two years and the obligations liquidated in the subsequent year. In FY 2002, Congress earmarked specific amounts of the Discretionary fund for (1) Child Care Quality Improvement Activities (\$172.6 million); (2) Infant and Toddler Quality Improvement (\$100 million); and (3) Child Care Resource and Referral and School Age Care (\$19.1 million).

FY 2002 Highlights:

This summary provides information obtained from State financial reports submitted for the FY 2002 CCDF appropriation (October 1, 2001-September 30, 2002). The FY 2002 State reports detail expenditures from each of the CCDF funding streams (Mandatory, Matching, and Discretionary), as well as funds transferred from the Temporary Assistance for Needy Families (TANF) program to CCDF in FY 2002. Included are expenditures for administration, quality activities including Congressionally-mandated earmarks, and direct and non-direct services. States continue to report on their expenditures of FY 2002 funds until expended; therefore, these numbers are subject to annual updates. Note: This summary does not include expenditures in FY 2002 from funds appropriated in prior fiscal years. To see a complete picture of total child care expenditures during FY 2002 from prior year funds and TANF direct child care expenditures, click on the following web link.

Total Expenditures - In FY 2002, States expended a total of \$6.2 billion of FY 2002 combined Federal and State funds, which includes both CCDF and TANF transfers into CCDF. An additional \$1.4 billion was expended in "direct spending for child care services" under the TANF

program. Expenditures of Federal CCDF funds were \$4.2 billion and State Matching and MOE funds were \$2.0 billion.

Maintenance of Effort. To be entitled to Matching funds, States must expend State funds for child care at a level at least equal to the greater of FY 1994 or FY 1995 Title IV-A child care program expenditures. States reported spending \$888 billion of State funds meeting the required MOE levels. Eight States reported spending a total of \$129 million over the required MOE level with total MOE expenditures equaling \$1 billion. It is possible that the MOE expenditures reported for CCDF may also be reported as part of the State's TANF basic MOE expenditures. (TANF Final Regulations, Section 263.3(a))

Non-Federal Match. In addition to meeting the above MOE requirement and obligating their Mandatory funds by 9/30/02, States must match Federal expenditures with State funds at the applicable 2002 Federal Medical Assistance Percentages rate to be eligible for Federal Matching funds. For the \$1.1 billion of Federal expenditures, States contributed \$973 million of State funds complying with the required match. (See Unobligated Balance paragraph for Matching funds returned for reallocation.)

Temporary Assistance for Needy Families (TANF) Block Grant Transfers. PRWORA of 1996 allows States to transfer portions of their TANF grant to either the CCDF or the Social Services Block Grant. Forty-one States transferred funds to CCDF in amounts ranging from \$749,000 to \$423 million. A total of \$2.1 billion in FY 2002 Federal TANF funds were transferred to CCDF comprising 30 percent of total CCDF Federal funds (\$6.8 billion including TANF transfers) available to States for FY 2002. As stipulated in the TANF Final Regulations, States may transfer current year TANF funds only.

Direct Services. CCDF spent by States on direct child care services was \$4.1 billion or 80.6 percent of the FY 2002 total Federal and State CCDF expenditures (excluding MOE). MOE expenditures on direct services were an additional \$875 million or 86.1 percent of total MOE expenditures. In total, \$5 billion or 81.5 percent of the FY 2002 total Federal and State CCDF expenditures (including MOE) were spent on direct services.

Administrative Costs. By law, no more than five percent of CCDF funds may be used for administrative costs. Compliance with this requirement is assessed at the end of the liquidation period (9/30/04). State administrative expenditures were \$147 million in FY 2002, or 2.9 percent of FY 2002 total Federal and State expenditures -- well below the limit. MOE expenditures, which are not included in the five percent calculation, amounted to \$21 million for administrative costs.

Quality Services. The statute requires that a minimum of four percent of CCDF expenditures be spent on quality activities (excluding Earmarked funds). Compliance with this requirement is assessed at the end of the liquidation period (9/30/04). State spending on improving the quality of child care services was \$359 million in FY 2002, or 7.0 percent of FY 2002 total Federal and

State expenditures. An additional \$48 million was spent on quality activities from the States' MOE expenditures.

Earmarked Funds. Of the \$292 million Earmarked, States have spent \$141 million. States have until the end of the liquidation period to expend their earmarked funds. Earmarked expenditures include: \$73 million on Child Care Quality Improvement Activities; \$43 million on Infant and Toddler Quality Improvement; and \$25 million on Child Care Resource and Referral and School Age Care.

Non-Direct Services. States have spent \$350 million in non-direct services, or 6.8 percent of FY 2002 total State and Federal expenditures. The breakdown of non-direct services expenditures is \$21 million on child care computer information systems, \$146 million on certificate programs and eligibility determinations and \$183 million for other costs. MOE expenditures on non-direct services were \$73 million.

Unobligated Balances. In FY 2002, States obligated 100 percent of the Federal Mandatory funds. At the end of the year, five States released \$23 million, or 1.5 percent in Matching funds for reallocation in FY 2003. The unobligated balance for the \$4.1 billion of Discretionary funds was \$915 million, or 22.3 percent. States have an additional year to obligate these funds.

Expended Funds. States spent \$967 million, or 82 percent, of FY 2002 Mandatory funds, and \$1.1 billion, or 75 percent of the Federal Matching funds. States spent \$2.1 billion, or 50 percent of the Discretionary funds (including TANF transfers).

Unliquidated Funds. Seventeen States have a balance of \$210 million of Mandatory funds, and 28 States have \$347 million of Matching funds to liquidate. Thirty-four States and Territories have \$1.1 billion of Discretionary funds to liquidate. States will continue to expend FY 2002 funds in Fiscal Years 2003 and 2004.