

STATE SPENDING UNDER THE FISCAL YEAR 2003 APPROPRIATION FOR
CHILD CARE AND DEVELOPMENT FUND
AS OF 9/30/2003

Background:

Under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, the Child Care and Development Fund (CCDF) 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) in which the funds were awarded.

The **Matching fund** must be matched by a State at its applicable Federal Medical Assistance Percentage (FMAP) rate prepared by the Office of Health Policy, Office of the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services as stipulated by the Social Security Act. 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 for child care determined based on the greater of FY 1994 or FY 1995 Title IV-A child care program expenditures. 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 2003, Congress earmarked specific amounts of the Discretionary fund for (1) Child Care Quality Improvement Activities (\$171.5 million); (2) Infant and Toddler Quality Improvement (\$99.3 million); and (3) Child Care Resource and Referral and School Age Care (\$18.9 million).

FY 2003 Highlights:

This summary provides information obtained from the State CCDF financial expenditure reports (ACF-696) submitted for the FY 2003 CCDF appropriation. The FY 2003 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 2003. 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 2003 funds until expended; therefore, these numbers are subject to annual updates. *Note: This summary does not include expenditures in FY 2003 from funds appropriated in prior fiscal years. To see a complete picture of total child care expenditures during FY 2003 from prior year funds and TANF direct child care expenditures, click on the following [web link](#).*

Total Expenditures – In FY 2003, States expended a total of \$6.6 billion of FY 2003 combined Federal and State funds, which includes both CCDF and TANF transfers into CCDF. An additional \$1.7 billion was expended in “direct spending for child care services” reported in the TANF program. Expenditures of Federal CCDF funds were \$4.6 billion and State Matching and MOE funds were \$2.0 billion.

Maintenance of Effort. States reported spending \$888 million of State funds meeting the established MOE levels. Eight States reported spending a total of \$88 million over the required MOE level with total MOE expenditures equaling \$976 million.

Non-Federal Match. In addition to meeting the above MOE requirement and obligating their Mandatory funds by 9/30/03, States must match Federal expenditures with State funds at the applicable 2003 FMAP rate to be eligible for Federal Matching funds. For the \$1.2 billion of Federal expenditures, States contributed \$1.0 billion 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 \$1 million to \$547 million. A total of \$1.8 billion in FY 2003 Federal TANF funds was transferred to CCDF comprising 28 percent of total CCDF Federal funds (\$6.5 billion including TANF transfers) available to States for FY 2003. 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 \$4.6 billion or 82 percent of the FY 2003 total Federal and State CCDF expenditures (excluding MOE). MOE expenditures on direct services were an additional \$874 million or 89.5 percent of total MOE expenditures. In total, \$5.4 billion or 83 percent of the FY 2003 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 (9/30/05). During this expenditure period, State administrative expenditures were \$147 million, or 2.6 percent of FY 2003 total Federal and State expenditures to date. MOE expenditures, which are not included in the five percent calculation, amounted to \$23 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 (9/30/05). During this expenditure period, State spending on improving the quality of child care services was \$346 million, or 6.2 percent of FY 2003 total Federal and State expenditures to date. An additional \$10 million was spent on quality activities from the States’ MOE expenditures.

Earmarked Funds. Of the \$290 million earmarked, States have spent \$112 million. States have until the end of the liquidation period to expend their earmarked funds. Earmarked expenditures include: \$69 million on Child Care Quality Improvement Activities; \$31 million on Infant and

Toddler Quality Improvement; and \$12 million on Child Care Resource and Referral and School Age Care.

Non-Direct Services. States have spent \$396 million in non-direct services, or 7.1 percent of FY 2003 total State and Federal expenditures. The breakdown of non-direct services expenditures is \$21 million on child care computer information systems, \$198 million on certificate programs and eligibility determinations and \$177 million for other costs. MOE expenditures on non-direct services were \$73 million.

Unobligated Balances. In FY 2003, States obligated 100 percent of the Federal Mandatory funds. At the end of the year, three States released \$15 million, or 1 percent in Matching funds to be reallocated to States for FY 2004. The unobligated balance for the \$3.9 billion of Discretionary funds was \$767 million, or 19.8 percent. States have an additional year to obligate these funds.

Expended Funds. States spent \$1.0 billion, or 88 percent, of FY 2003 Mandatory funds, and \$1.2 billion, or 81 percent of the Federal Matching funds. States spent \$2.3 billion, or 60 percent of the Discretionary funds (including TANF transfers).

Unliquidated Funds. Nineteen States have a balance of \$142 million of Mandatory funds, and 28 States have \$276 million of Matching funds to liquidate. Thirty-four States and Territories have \$773 million of Discretionary funds to liquidate. States will continue to expend FY 2003 funds in Fiscal Years 2004 and 2005.