



# North Carolina Department of Health and Human Services Division of Social Services

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March 22, 2006

**DEAR COUNTY DIRECTOR OF SOCIAL SERVICES**

**ATTENTION: Work First Program Administrators and Supervisors**

**SUBJECT: Impact of the Deficit Reduction Act on Work First**

## **IMPACT OF THE DEFICIT REDUCTION ACT OF 2005**

There have been a number of questions to arise since the passage of the Deficit Reduction Act of 2005 regarding the impact on North Carolina's Work First program. Following is a summary of what is known at this time. Over the next few months, the next cycle of the TANF planning process for the state and the counties will take place and the changes as a result of the Deficit Reduction Act will be taken into account. As more information becomes known about the federal regulations that will be developed and issued this summer, we will know more about the potential impact and that information will inform our TANF planning process.

**The Deficit Reduction Act (DRA) of 2005:** On February 8, 2006, President Bush signed into law the Deficit Reduction Act of 2005, formally known as the Budget Reconciliation Act. The DRA reauthorizes TANF through 2010. *For North Carolina's Work First Program, the most significant change under the TANF Block Grant is the calculation of the caseload credit reduction.*

**Caseload Reduction Credit:** *The caseload reduction credit changes the base year from 1995 to 2005.* The current Caseload Reduction Credit has greatly assisted North Carolina in meeting federal work participation rates. Due to the successful decreases in the traditional TANF caseloads as a result of the first phase of Welfare Reform, counties now have caseloads consisting of individuals who are considered harder to serve. These individuals may have several barriers to self-sufficiency such as, no recent connection with the labor market, untreated substance abuse issues, limited literacy and/or skills. These individuals require more intensive case management resulting in increased costs in providing service and many times a longer reliance on government supports (i.e. Food Stamps, Child Care etc.).

**Participation Rates:** *The provisions maintain the separate two-parent work rate at 90% and the all-families work rate at 50%.* With the recalibration of the Caseload Reduction Credit, work participation is critical as we are now serving clients with more difficult needs. Therefore, while the participation rates have not changed, it will be increasingly difficult to place clients into employment opportunities. It is only with the current calibration of the Caseload Reduction Credit that North Carolina has been able to meet the participation rates. An inability to meet the

Dear County Director  
March 22, 2006  
Page 2

performance measures has the potential to result in financial penalties which would derail the progress our counties are making with families.

*The DRA directs the Secretary of Health and Human Services to define work activities and required work hours and to identify what categories of TANF recipients will be required to work.* The potential changes that HHS may make in this area bear close attention. Even though it is unknown at this time what this would look like, any decision to further restrict countable work activities and increase required work hours are of concern. In addition, there is some indication that HHS may identify some of the TANF child-only populations to be required to participate in work. It is not clear at this time whether the child only populations under consideration will include SSI parents, undocumented immigrant parents, relative caregivers or parents on sanctions. The DRE gives the Secretary of HHS until June 30, 2006 to issue the new Federal Regulations for TANF. The regulations will be interim final rules, which means they will be effective upon publication. We are in the process of making public comment to HHS, as are the American Public Human Services Association, the National Governors Association and many other states without benefit of seeing any proposed regulations. There will probably be a brief comment period after publication, but HHS is under no obligation to make changes to the rules in response to comment.. States will have until September 30, 2006 to come into compliance.

**Data Reporting/Collection:** *The proposed recommendations request additional and enhanced data reporting elements.* As a result, the current automation system would need modifications to meet the new requirements. While some automation changes are budgeted in the TANF Block Grant, there is no way to predict at this time if these funds will be enough to make the necessary system modifications. Also, states must establish work participation verification procedures which, if not met, could result in substantial penalty.

**Needed changes to the TANF State Plan:** *Upon review by Division staff and consultation with the Attorney General's Office, there are no changes needed to North Carolina's Work First Statutes in the Short Session as a result of the DRA.* The State TANF Plan will need to be changed to reflect the work activities but we will not know what they are until 6-30-2006, as HHS has that long to established its new federal regulations and states have until Sept. 2006 to implement. We will have to change the information about Child Only cases if HHS decides they are part of the work participation rate.

The TANF State Plan can be amended but should be approved by the General Assembly. NCGS 108A-27. (c) states that the Department of Health and Human Services may change the Work First Program when required to comply with federal law. Any changes in federal law that necessitate a change in the Work First Program shall be effected by temporary rule until the next State Plan is approved by the General Assembly. Any change effective by the Department to comply with federal law shall be reported to the Senate Appropriations Committee on Health and Human Services and the House of Representatives Appropriations Subcommittee on Health and Human Services and included in the State Plan submitted during the next session of the General Assembly following the change.

**National Database for New Hires:** *The Division of Social Services has gained access to the National Database for New Hires in order to pilot this resource as a potential means to increase identification of working TANF recipients.* The National Directory of New Hires (NDNH) was authorized under Welfare Reform to provide a national database of employment information for the purpose of collecting child support payments. Due to the money that has been identified and collected, ACF strongly believes the NDNH data will be beneficial to TANF programs. Based on a pilot by the District of Columbia, the use of the NDNH showed a \$9.8 million in savings from information verified as a result of the matches. That equates to approximately

Dear County Director  
March 22, 2006  
Page 3

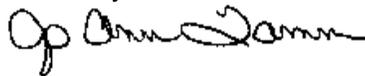
10% of their TANF Block Grant. Twenty-five percent (25%) more clients were found to be employed than reflected in previous data from other sources. The District of Columbia used the information as a means to have more significant impact on the economic well being of families in determining if additional supports were required, such as

- Retention services, i.e. child care
- Medical assistance
- Improved case management services
- Ability to meet higher participation rates

Access to the W-4 data through the NDNH is free on a monthly basis until September 30, 2006. The Division has formed a workgroup that includes staff from Onslow, Robeson, Forsyth and Chatham. Two of these counties have significant military populations, and one county is a border county. One county is a relatively large county in the middle of the state, and the other is a relative small county also in the middle of the state. These counties will assist the Division in assessing the potential benefits and costs for using this resource. If the results of this pilot indicate that access to the NDNH would be cost effective once there is a charge to the state for access, these counties will assist the Division in developing recommendations for any needed policy. It is hoped that this resource will assist North Carolina in meeting our participation rates given the new regulations anticipated as a result of the DRA.

If you have any questions regarding this letter, please feel free to contact your Work First Representative or call the Work First/CPS Policy Team at (919) 733-4622.

Sincerely,



Jo Ann Lamm, Section Chief  
Family Support and Child Welfare Services Section

JAL/sam

cc: Pheon Beal  
Sherry Bradsher  
Sarah Barham  
Local Business Liaisons  
Children s Programs Representatives  
Family Support and Child Welfare Services Team Leaders

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