

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

SPECIAL NOTE: This fiscal note contains attachments that cannot be entered into the Automated Bill Status system due to technical limitations. Hard copies of this fiscal note will be made available through the Office of Printed Bills and the Division of Fiscal Research.

**BILL NUMBER:** SB 35 (Third Edition) The fiscal impact for the Third Edition is different from the fiscal impact for the Second Edition. Please discard the fiscal note for the Second Edition of SB 35. See page 5 and 6 of the fiscal note and page 3 of Appendix #1 for the changes in the fiscal impact.

**SHORT TITLE:** Partnership for Independence 3rd Edition, 2nd CS

**SPONSOR(S):** Senator Bill Martin

**FISCAL IMPACT:**

<b>Expenditures:</b>	<b>Increase (X)</b>	<b>Decrease (X)</b>
<b>Revenues:</b>	<b>Increase ( )</b>	<b>Decrease (X)</b>
	<b>No Impact ( )</b>	
	<b>No Estimate Available ( )</b>	

**Note:** Increases State expenditures in 1996-97, 1997-98, and 1998-99. Decreases local expenditures in all five years. Decreases federal funds in four out of five years.

**FUND AFFECTED:** General Fund (X) Highway Fund ( ) Local Fund (X)  
Other Funds (X) Federal Funds

**BILL SUMMARY:** G.S. 108A-26.10 states the goal of welfare reform is to enable families to move from welfare to permanent work and economic self-sufficiency by focusing people who need assistance on work first.

G.S. 108A-26.11 (a) establishes the Work First Program which shall replace the JOBS Program. The Work First Program shall consist of compensated work, community service, training and education activities. AFDC recipients currently enrolled in JOBS have the option, until July 1, 1996 to complete that program.

(b) Provides for establishment of diversion assistance. A recipient may receive a payment equal to three times the monthly maximum amount of AFDC cash assistance that would be received if the recipient was on continuing public assistance. If the recipient applies for continuing assistance within three months of receiving a diversion payment, the amount of the diversion payment shall be prorated over a three month period and subtracted from any AFDC grant the recipient is eligible to receive.

(c) Requires recipients to execute personal responsibility agreements as a condition of eligibility for AFDC assistance. The agreements shall set forth what the recipients are expected to do to exercise the

personal responsibility necessary to ensure that the Work First Program will be effective for the recipient. The failure to execute the agreement shall result in the denial or termination of AFDC or Medicaid.

(d) Sets forth requirements of the Work First Program, including education and training requirements. Recipients placed on active status shall be given first priority for placement in compensated and uncompensated work for 30 hours per week. If the local DSS determines it to be necessary, recipients may be placed in education and training programs for all or a part of the 30 hours per week. If work is unavailable, recipients, who are not otherwise exempt from the work requirements, shall be placed in community service for 30 hours per week. Food stamp recipients, who do not receive AFDC, are encouraged to perform community service if they have the necessary child care.

Exemptions from the Work First Program shall be given to recipients who are (1) under the age of 16, (2) ill or disabled; (3) age 60 or older; (4) provide care to someone in the home who is ill or disabled; (5) required to travel more than two hours round trip for work or training; or (6) specified relatives caring for children under the age established for enrolling in kindergarten. Recipients who are caring for children from age three months to kindergarten age may be placed in active status if sufficient child care resources and job placements are available.

(e) Sets forth sanctions for willful failure to comply with personal responsibility agreements. Local DSS agencies shall be required to review personal responsibility agreement every 12 weeks. Upon the first review that indicates a willful failure to comply, AFDC assistance shall be reduced for three months.

If a subsequent review indicates that the recipient is still not in compliance, the recipient's AFDC shall be removed for three months. If a subsequent review indicates that the recipient is still not in compliance, the recipient's AFDC shall be removed for six months.

If a subsequent review indicates that the recipient is still not in compliance, the recipient's AFDC and Medicaid shall be terminated and the recipient would be ineligible to reapply for those benefits for three years.

Sanctions against the recipient shall not affect the family's food stamp benefits and children of the recipient shall remain eligible for AFDC and Medicaid assistance. A recipient's benefits shall not be reduced or terminated, if the recipient's failure to comply is the result of failure of the local DSS or State to provide specified services or due to circumstances beyond the recipient's control.

(f) Sets forth additional limitations on AFDC assistance:

**Benefits for Minors** - AFDC assistance shall be unavailable to unmarried minor recipients, unless they live with their parents or guardians. Minor parents shall not be required to live at home if there are reasonable grounds to suspect that the minor parent or the minor

parent's child will be abused. Unemancipated minor parents shall not receive AFDC checks directly unless it is determined that the minor resides in a household separate from a parent or guardian for reasons of health, safety or being forced from the home of the parent or guardian or federal law prohibits such constraint.

**Family Cap Limits** - No increases in AFDC assistance shall be given to a recipient for any child born at least ten months after the recipient begins receiving assistance. The two-year overall benefits limit shall not be increased due to the birth of an additional dependent child. An additional dependent child remains eligible for all assistance for which the child is eligible. An additional dependent child, born in violation of the family cap limit, shall not be included in family size for the purpose of determining the amount of assistance upon a subsequent reapplication for assistance. These limits shall not apply if the additional dependent child's birth is the result of rape or incest and if these offenses were reported to the appropriate law enforcement agency.

**Overall Benefits Limits** - AFDC assistance shall be limited to two cumulative years from the date of being assigned to active status in the Work First Program. Recipients, whose assistance is terminated pursuant to this limitation, shall be ineligible to reapply for assistance for three years following the date of termination. The two-year limit may be extended for an additional year if the recipient is unable to find employment while actively engaged in a job search or needs the continued assistance to complete a training or education program. The two-year limit also may be extended until an exempting condition has ended. Recipients, who have used only a part of their two-year benefit limit upon leaving AFDC due to increased earned income, may resume the two-year benefit limit if the recipient loses a job due to an exempting condition or for good cause attributable to the employer. Cumulative time limits further may be waived in cases where domestic violence has occurred and prevents the recipient from attaining self-sufficiency.

**Felons, Parole or Probation Violators** - Current recipients convicted of a felony who receive an active sentence in a State-owned or operated facility or found in violation of a felony parole or felony probation shall be ineligible for benefits and their benefits terminated. Those recipients may reapply for benefits when the conditions of their conviction, parole or probation have been satisfied. Children, of these recipients, remain eligible for benefits which shall be paid to a protective payee.

**Drug and Alcohol Treatment** - As a condition of eligibility for benefits, each applicant or current recipient, determined by a qualified substance abuse treatment provider to be addicted to alcohol or drugs, shall be required to participate in an individualized appropriate treatment program. Testing for the presence of alcohol or drugs during and after treatment in accordance with individualized plan

shall be required. Failure to comply shall result in ineligibility for AFDC cash benefits. Children, of these recipients, remain eligible for benefits which shall be paid to a protective payee. A recipient shall not be regarded as failing to comply if an appropriate treatment program is unavailable.

**Removal of Work Disincentives** - The value of an allowable motor vehicle shall be raised to not more than \$5,000 for the purposes of determining eligibility for AFDC and food stamps. The resource asset limits shall be raised to \$3,000, excluding the value of a residence and motor vehicle, for the purposes of determining eligibility for AFDC and food stamps. The 100-hour rule and employment history requirement for two-parent AFDC families shall be eliminated. The Department of Human Resources shall be authorized to disregard all of the employment income of a recipient for the first three months, \$200 plus one-third of the remainder for the next nine months, and \$90 for all subsequent months. Employment earnings of minor children of AFDC recipients shall be disregarded if they are enrolled in and attending school.

**Additional Work Incentives** - The Department of Human Resources shall be required to establish demonstration projects to test the use of Individual Development Accounts which are special bank accounts that may be used only to purchase a home, acquire health or disability insurance, obtain education or training, or develop a small business. The Department shall be required to increase transitional Medicaid and child care assistance to 18 months.

**Fraud Prevention** - The Department shall be required to take advantage of all federal AFDC and Food Stamp fraud prevention programs and dollars and authorizes income tax intercept for claims classified as Food Stamp Inadvertent Household Errors. The Department shall ensure that food stamps are not issued to separate related family submits all living within one residence unless to do so would extend the period of dependency.

G.S. 108A-26.12 sets forth systemic changes needed to effect welfare reform including the reduction of duplication and inefficiencies and movement toward a case management system of delivery.

G.S. 108A-26.13 requires the State Auditor to conduct a performance audit of all programs related to the administration and delivery of benefits and services to public assistance recipients.

G.S. 108A-26.14 requires the General Assembly to establish a commission or committee to oversee ongoing program evaluation as welfare reform progresses.

G.S. 108A-26.15 requires all State agencies that provide programs and services to public assistance recipients to ensure that those programs and services are provided in a way to effect welfare reform consistent with this act.

G.S. 108A-26.16 provides that any law or rule in conflict with these provisions is superseded by these provisions.

Among other conforming statutory changes, the bill provides for the designation of a legislative study commission, which may be the

Legislative Welfare Reform Study Commission, if reauthorized, and encourages the Governor to establish the Child and Family Services Interagency Council.



The Department of Human Resources shall be required to apply for all waivers necessary to implement the provisions of this act. The act becomes effective on January 1, 1996, subject to the receipt of required waiver or an appropriation by the General Assembly to make up for the loss of any federal funds if waivers are denied or not accepted upon the effective date. Any appropriations made by this act becomes effective July 1, 1995 and the remainder of the act becomes effective upon ratification.

**EFFECTIVE DATE:** Sections 1 and 1.1 effective January 1, 1996. Sections 2 through 6 are effective upon ratification.

**PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:**

Department of Human Resources  
 Division of Social Services  
 Division of Medical Assistance  
 Department of the State Auditor  
 County Departments of Social Services

**FISCAL IMPACT**

(IN MILLIONS)

	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
<b>TOTAL EXPENDITURES</b>	(\$11.83)	(\$ 1.10)	\$ .68	(\$14.48)	(\$31.61)
<b>STATE FUNDS</b>	(\$ .52)	\$ 3.47	\$ 3.51	\$ .64	(\$2.99)
<b>LOCAL FUNDS</b>	(\$ .83)	(\$ 2.76)	(\$ 3.46)	(\$ 6.40)	(\$ 9.41)
<b>FEDERAL FUNDS</b>	(\$10.48)	(\$ 1.81)	\$ .63	(\$ 8.72)	(\$19.21)
<b>POSITIONS:</b>	(0)	(0)	(0)	(0)	(0)

**ASSUMPTIONS AND METHODOLOGY:**

General Assumptions:

The following general assumptions were used to estimate the fiscal impact of SB 5.

1. The overall analysis assumes status quo at the federal level since the result of federal Welfare Reform is unknown and cannot be predicted.
2. The economy will continue to be stable.
3. There will be no large change in in-migration.



4. The 5% rate of refusal to sign the personal responsibility agreement will reduce the overall AFDC caseload over time from the current 120,000 to about 114,600. No caseload growth or other changes are assumed aside from the impact of the provisions contained in this analysis.
5. Time limits will reduce the AFDC caseload beginning in the third and fourth year. Two year time limits apply to all individuals in Work First Active, but can be extended or waived according to conditions in SB 35.
6. Except for the impact of time limits and refusal to sign the personal responsibility agreement, the remaining provisions are estimated separately, because the impact of one provision on another cannot be predicted. In addition, the behavioral changes which may result from SB 35 also cannot be predicted, but assumptions for behavioral responses have been used when necessary.
7. No assumption about the anticipated length of stay on AFDC was used in making these estimates. The impact on the AFDC caseload as a whole was considered while accumulating the first year's impact, where appropriate, and assuming no outside caseload changes. This approach accounts for cases that regularly leave and return or begin AFDC.
8. The following Federal Financial Participation rates were used throughout the estimated:  
  
1996-97 - 64.46%  
1997-98 - 64.28%  
1998-99 - 64.10%  
1999-00 - 63.93%
9. Any Welfare Reform legislation will require that the existing automated data systems for public assistance programs be changed. In the case of SB 35, changes will need to be made related to eligibility determination, time limits, and sanctions which are required under the proposed legislation. These changes may require new software development and the purchase of new hardware on the local level. The actual cost of making the necessary changes needed for SB 35 is not known at this time and will require further analysis.

Public Assistance Assumptions:

The assumptions and detailed fiscal analysis for the provisions of SB 35 which impact the public assistance programs are provided in Appendix #1. This analysis was prepared by the Division of Social Services and reviewed by the Division of Fiscal Research. The Division of Fiscal Research concurs with the assumptions, analysis and cost estimates

provided in the analysis. The assumptions for the Public Assistance provisions were modified on page 3 of Appendix #1 because the Third Edition of SB 35 changes the sanctions for noncompliance by allowing the

**specified relative to continue to receive Medicaid until they have been out of compliance for six months.**

Employment and Training Assumptions:

The assumptions and detailed fiscal analysis for the provisions of SB 35 which impact the employment and training programs for AFDC recipients are provided in Appendix #2. This analysis was prepared by the Division of Social Services and reviewed by the Division of Fiscal Research. The Division of Fiscal Research concurs with the assumptions, analysis and cost estimates provided in the analysis.

AFDC Fraud Control Assumptions:

1. **County Staff Costs:** Federal regulations for the Optional AFDC Fraud Control Program require counties to have specific staff designated as fraud investigators. While all counties are required to administer the current AFDC fraud detection and prevention program, twenty counties do not have staff specifically designated as fraud investigators. These twenty counties (see attached list) will be required to have designated fraud investigators. Some of these counties may be able to reassign staff or restructure staff duties so that they could designate a fraud investigator without hiring additional staff, but some may not be able to do this.

For estimation purposes, it has been assumed that all twenty counties would have staff to implement the optional AFDC Fraud Control Program. To make estimates, information from counties with fraud investigators was reviewed and the staff cost for these counties was averaged. The average cost per county with designated fraud investigators (\$9,960) was assumed as a new cost for each of the twenty counties for a total of \$199,200. The costs reflect the additional time which would be required for designated fraud investigators and not for 20 full-time positions. If some counties are able to designate existing staff as fraud investigators, the actual costs may be lower. This estimate represents the maximum cost. A 3% annual growth factor is assumed in years following 1995-96. The cost for county staff would be funded with 50% federal funding and 50% county funding.

2. **Other Administrative Costs:** The implementation of of the Optional AFDC Fraud Control Program would require some one-time and on-going administrative costs at the state level. Administrative costs include (1) printing required notices, instructions, and training materials (\$20,000 in 1995-96 and \$3,000 in subsequent years); (2) postage for notices produced by the AFDC Claims System and mailed by the State (\$1,954 each year); and (3) training for the counties through four teleconference sessions at 35 sites across the State (\$16,000 in 1995-96). Training is currently provided through teleconferences. A 3% annual growth factor is

assumed in years following 1995-96. The administrative costs would be funded with 50% federal funding and 50% state funding.

3. **Automated AFDC Claims System:** The Department will need to develop and implement a statewide automated system to track AFDC fraud claims and to assist in the collection of such claims. The Division of Information Management (DIRM) in the Department of Human Resources has estimated the cost to develop an AFDC Claims System by reviewing the existing claims system for the Food Stamp program. The one-time cost estimate to automate these two functions is \$350,000 which would be expended in 1995-96. It is assumed that the on-going maintenance of the system in years following 1995-96 will be absorbed into the existing operating budget for maintaining computer systems. The cost for the Automated AFDC Claims System would be funded with 50% federal funding and 50% state funding.

Performance Audit Assumptions:

SB 35 requires the State Auditor to conduct a performance audit of all programs related to the administration or delivery of benefits and services to public assistance. The Office of the State Auditor has estimated that the performance audit of public assistance programs would require eighteen months to complete and cost \$1,680,000. The cost estimate assumes that this project will be accomplished by a team consisting of current performance audit staff, two time-limited employees and consultants. The cost of the performance audit has been split equally between 1995-96 and 1996-97.

**SOURCES OF DATA:**

Department of Human Resources  
Division of Social Services  
Division of Medical Assistance  
Department of the State Auditor  
County Departments of Social Services

**TECHNICAL CONSIDERATIONS:** None.

**FISCAL RESEARCH DIVISION**

**733-4910**

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**DATE:** 7/04/95



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