REPORT OF THE
VIRGINIA DEPARTMENT OF SOCIAL SERVICES

The Study of Locality Groupings

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

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COMMONWEALTH of VIRGINIA

DEPARTMENT OF SOCIAL SERVICES

November 30, 2001

To: The Honorable James S. Gilmore, III

and

The General Assembly of Virginia

The report contained herein is pursuant to House Joint Resolution 772 (2001). House Joint resolution 772 (HJR 772) directed the Department of Social Services, with the assistance from the Department of Planning and Budget, to review the groupings of local departments of social services used in determining Temporary Assistance for Needy Families (TANF) payment amounts in the Commonwealth. As a result of that request, a study was performed to determine the relevancy of the current locality groupings, given the Commonwealth's economic climate, and if some other method of determining the TANF payment amounts would better serve the interests of the Commonwealth.

The report cost the Commonwealth an estimated $25,000 to complete. Approximately 904 man-hours were spent on completing the report. This includes staff time in the Department of Social Services and the Department of Planning and Budget to compile and analyze the data and Department of Social Services' staff time to write the report.

Respectfully Submitted,

Sonia Rivero
Commissioner

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Report On
The Study Of Locality Groupings

PREFACE

House Joint Resolution 772 (HJR 772), as approved by the 2001 General Assembly, requested the Department of Social Services (Department), with assistance from the Department of Planning and Budget, to review the groupings of local departments of social services used in determining Temporary Assistance to Needy Families (TANF) payment amounts in the Commonwealth. As a result of that request, a study was performed to determine the relevancy of the current locality grouping, given the Commonwealth's economic climate, and if some other method of determining TANF payment amounts would better serve the interests of the Commonwealth.

The Department was directed to include the following specific information in its report: (i) the most appropriate basis for classifying local agencies into groups for purposes of the TANF programs, (ii) whether any changes to current classifications would be advisable, and (iii) the fiscal impact, if any, of such changes on the state, local governments and TANF recipients. This report endeavors to fulfill the directive of HJR 772.

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EXECUTIVE SUMMARY

House Joint Resolution 772 (HJR 772), as passed by the 2001 General Assembly, requested the Department of Social Services (Department), with assistance from the Department of Planning and Budget, to review the groupings of local departments of social services used in determining Temporary Assistance for Needy Families (TANF) payment amounts in Virginia. As a result of that request, a study was performed to determine the relevancy of the current locality groupings, and if some other method of determining TANF payment amounts would better serve the interests of the Commonwealth.

In the early 1970's, the Aid to Families with Dependent Children (AFDC) program was the principal program designed to provide financial assistance to families with dependent children. The AFDC grant for each assistance unit was based on the "Assistance Plan." The "Assistance Plan" required individual cost-of-living requirements to be determined on an actual cost basis. The plan was cumbersome and prone to error.

In 1974, the State Board of Social Services developed a flat-grant payment structure to address the error rate issue. The flat-grant payment structure reflected differences in the size of the assistance unit and the shelter cost in particular localities. Depending upon their cost of shelter care, localities were placed in one of three groupings.

Since the initial implementation of the locality grouping system, the Department has sought alternative methods for addressing any real or perceived inequities. The Department explored methods that were simple, statistically convincing, and easily replicable. The difficulty encountered by the Department was that little data existed that was locality specific. Also, the data that was available was collected through census reports and, therefore, tended not to be current.

The Department has identified several options that could be considered to modify the current locality grouping system. Below are the pros and cons for the different options.

The first option is to make no change to the current locality grouping system and implement an appeal process, whereby a locality could challenge its current grouping by petitioning the State Board of Social Services. An appeal process that allows a locality to challenge the degree of equity in its locality grouping placement would address some of the concerns that initiated the need for HJR 772, but limit the fiscal impact on recipients that creating an entirely new locality grouping system would cause.

The second option is to use the United States Department of Housing and Urban Development's (HUD's) fair market rents (FMRs) as a basis for updating shelter cost. The Secretary of HUD is required to publish FMRs periodically, but no less frequently than annually to be effective on October 1 of each year.

HUD's FMRs could be used to establish locality groupings in two ways. The first method would modify the current locality grouping system by grouping localities according to their 2002 HUD's fair market rents. By updating the original 1974 locality groupings using the 2002 proposed fair market rents, the incongruities apparent within the current locality grouping system dissipate. Under this method, 41 localities would change groupings. Fourteen localities move to a lower grouping, while 27 localities move to a higher grouping.

A second method for using the HUD's FMRs would be to combine the FMRs with Planning Districts. An average fair market rent for each planning district would be determined. The planning district's average fair market rent would then determine the locality grouping for each of the localities within the planning district. Under this method, 56 localities would change groupings. Fourteen localities move to a lower grouping, while 42 localities move to a higher grouping. Only two localities move two tiers. Although more localities change groupings under this method than under the method of creating new groupings by using only the HUD's FMRs, the degree of movement between tiers is less significant.

A third option is for the Department to assess the cost-of-living by locality by creating a Virginia locality-specific Consumer Price Index comparable to the United States Consumer Price Index. Such an index would be the basis for assessing the cost of living in the various counties and cities in the Commonwealth.

Creating a Virginia Consumer Price Index would require development and regular maintenance of a consumer expenditure survey for the purpose of developing a Virginia locality-specific consumer price index. Four issues make this an impractical suggestion: (1) data accuracy and completeness; (2) level of effort; (3) sampling frame; and (4) fiscal resources.

A fourth option is to establish one flat payment amount for recipients no matter where they reside, rather than differentiating the cost-of-living among the various localities throughout the Commonwealth in order to determine the amount of public assistance a recipient is to receive. Thus the same amount of assistance would be issued to all recipients with a like number of eligible persons in the household regardless of the locality in which the recipient resides.

Most of the options listed above impact the amount of public assistance a substantial number of TANF recipients would receive. Additionally, amending the current locality grouping system, or abandoning the locality grouping system entirely, would be a dramatic event that needs careful consideration. Although the primary financial impact would be on TANF recipients, the localities may be forced to supplement any reduction in public assistance with other funds and/or services. This could create an un-funded mandate on localities.

A decision has been made by the Department and the General Assembly to pay for some eligible programs using TANF dollars instead of General Fund dollars. The Department receives $158 million in TANF block grant funds and is currently exceeding this amount in TANF spending by approximately $30 million, which is supplemented with TANF reserve funds. These reserve funds are nearing exhaustion. To balance these expenditures, TANF spending will have to be reduced.

To further complicate this situation, the Department is uncertain how much federal funding will be allocated during the TANF reauthorization. Since welfare rolls have been reduced across the country, it is possible the amount of federal funding for the TANF program will be reduced. If so, the Department will be forced to make further adverse budget modifications to non-mandated TANF programs and activities to supplement the funding shortage. This may require the Department to request General Fund dollars for programs that are now receiving TANF money and/or eliminate some programs. If a modification is made to the locality grouping system that requires more money to be spent on TANF benefits, a larger number of programs may have to be paid for out of General Fund dollars and/or eliminated.

Given the fiscal implications inherent with making any substantial changes to the current locality grouping and that TANF reauthorization is pending within the next fiscal year, careful consideration must be given to the prudence of making wholesale change to the current locality grouping system.

Report On
The Study Of Locality Groupings

STUDY MANDATE

House Joint Resolution 772 (HJR772), as passed by the 2001 General Assembly, states:

> *"...That the Department of Social Services, with assistance from the Department of Planning and Budget, be requested to review the groupings of local social services agencies used in determining TANF payment amounts in Virginia. The Department shall report its written findings, no later than October 1, 2001, to the Chairmen of the House Committee on Health, Welfare and Institutions and the Senate Committee on Rehabilitation and Social Services. The report shall include (i) the most appropriate basis for classifying local agencies into groups for purposes of the TANF programs, (ii) whether any changes to current classifications would be advisable, and (iii) the fiscal impact, if any, of such changes on state and local governments and TANF recipients.*
>
> *...The Department shall complete its work in time to submit findings and recommendations by November 30, 2001, to the Governor and the 2002 Session of the General Assembly..."*

See Appendix I for a copy of HJR 772.

As a result of this request, a study was performed to determine the relevancy of the current locality groupings, given the Commonwealth's economic climate, and if some other method of determining Temporary Assistance for Needy Families (TANF) payment amounts would better serve the interests of the Commonwealth.

HISTORY

Summary of the Aid to Families with Dependent Children Program

In the early 1970's, the Aid to Families with Dependent Children (AFDC) program was the principal program designed to provide financial assistance to families with dependent children. The program was created by the passage of the Social Security Act of 1935. The AFDC program was administered nationally in accordance with rules and regulations issued by the United States Department of Health and Human Services. In Virginia, the program was administered by local departments of social services (local departments) in accordance with Title 63.1 of the *Code of Virginia* and the policies and regulations established by the State Board of Social Services (State Board). The Virginia Department of Social Services (Department) was responsible for supervising the local administration of the AFDC program, including monitoring and evaluating local administration of AFDC to ensure statutory compliance.

Initially, AFDC benefits were provided to qualifying assistance units (recipients) in accordance with standards of need determined by the State Board. Assistance unit refers to the number of people in the household that the AFDC payment covers. The AFDC grant for each assistance unit was based on the "Assistance Plan." The "Assistance Plan" required individual cost-of-living requirements to be determined on an actual cost basis. The plan reflected the cost of room and board; institutional care; school training; laundry; personal services; telephone; household equipment; obligations; costs of medical and dental care; costs of legal representation; rental costs; house payments; and heat, cooking, lights, water and other utilities as separate cost items to the applicant/recipient. Recipients had to report changes in any of the cost factors as they occurred, since local departments were required to adjust the AFDC grant on a dollar for dollar basis. The complexities inherent with administering the AFDC program on an actual cost basis attributed to a significant error rate. To reduce the error rate, federal legislative changes made in 1973 permitted states to implement a "flat standard of need."

1974 Legislative Changes Governing Public Assistance Payments

During the 1974 General Assembly, legislation was enacted allowing the Department the flexibility to develop a "flat standard of need" approach to providing public assistance. The legislation allowed the State Board to consider the cost of living and the variation in monetary assistance standards for shelter allowance on a regional or local basis. The new legislation also removed language that required the Department to pay assistance to a person based upon the necessary expenditures of the individual. The new statutory language provided the State Board with the authority to develop a method of determining the amount of assistance that an assistance unit was to receive that was less prone to error than the "Assistance Plan" method.

As a result of the 1974 legislation, the State Board developed a flat-grant payment structure that reflected differences in the size of the assistance unit and the shelter cost in particular localities. In developing the flat-grant amounts, the Department was required to consider the significant cost of living differences among the localities of Virginia.

Methodology for Developing a Flat Standard of Need System

To develop the flat-grant payment structure, the Department conducted a "Standard of Need" survey of all localities in 1973. Each local department was required to submit the actual dollars spent by AFDC recipients in its jurisdiction as reflected in the "Assistance Plan." The data collected in the surveys demonstrated that the only significant variable across the state was shelter costs. Needs such as food and clothing did not vary significantly among the localities. The survey showed that shelter costs varied so widely across the state that a single standard of need, varying only by family size, appeared inappropriate to meet needs across the Commonwealth.

Based upon analysis of the data gathered from surveying the localities, a three-tiered system grouping localities by the varying cost of shelter care was established. Localities with the lowest shelter costs were placed in Group I; localities with the highest shelter costs were placed in Group III; and the remaining localities were placed in Group II. The revised standards of need reflecting the locality grouping system were implemented in July of 1974.

Issues with the Locality Grouping System

Since the initial implementation of the locality grouping system, the Department has sought alternative methods for addressing any real or perceived inequities. Issues of concern that arose immediately upon the initial implementation of the system included:

- combined agencies where the two localities are in different groups (e.g., Henry County and the City of Martinsville); and
- localities adjacent to localities in a higher group or on the fringe of a cluster of localities in a higher group (e.g., Loudon).

Given that the locality grouping system was based on the actual cost data submitted by the local departments of social services through a survey, the Department explored other avenues to form a basis for determining the differences in living costs in the various counties and cities. The Department explored methods that were simple, statistically convincing, and easily replicable. The difficulty encountered by the Department was that little data existed that was locality specific. Also, the data that was available was collected through census reports and, therefore, tended not to be current.

Attempts to Modify the Locality Grouping System

In 1978, the Department attempted to reexamine the locality grouping system by reassessing the current shelter costs using the 1973 methodology. Local departments collected and submitted to the Department shelter costs data on all AFDC applicants approved and AFDC cases "re-determined" in the months of January and June. However, technical problems involving the capture of data on an automated system rendered the results invalid and unrepeatable.

The Department also considered regrouping the localities using the 1970 Virginia census data and the number of families with less than poverty level income. This method was rejected because of the number of localities that would have changed group levels. Essentially, this method changed Group I localities into Group III localities, and vice versa.

Another method considered, using the 1970 census data, divided the number of families below the poverty level with children under the age of 18 by the total number of families with children under the age of 18 in the county or city. The quotient obtained represented the percentage of families with children under the age of 18 living in the locality who had income below the poverty level. The data generally supported larger localities to be reclassified in Group I and smaller localities to be reclassified into Groups II and III. This methodology represented the converse of the current locality grouping system. The method was determined to be "illogical" and the costs to the Commonwealth due to so many localities changing grouping levels would have been substantial.

Another method considered used data on the number of households per jurisdiction in renter-occupied housing. However, the division of the localities in groups merely followed the population size of the locality, with jurisdictions having larger populations in the higher groupings and those jurisdictions with smaller populations falling into the lower groupings. This method was determined not to be "defendable" because this single criterion without relation to the cost of housing would not be valid.

A report in 1980 using projected median income by cities and counties, based on the 1970 census, established three alternative groupings of local departments. One problem with this method was that the averages of income were not statistically defendable. Moreover, the 1970 census data was considered dated and the 1980 census data was not available. It was hoped that the new groupings would be generally consistent with the original groups and only isolate those few "bizarre" localities that needed to be moved. However, that was not the case. The results required significant movement of localities from one grouping to another. It was believed that the significant changes were caused by using data other than the shelter costs data that was used in 1973.

Between 1973 and 1984, concerns arose that inflation was severely eroding the standards of need as reflected in the cost-of-living compared to the AFDC payment levels. During the period of 1973 to 1984, payment levels increased by 21.3 percent. However, during the same period, the Consumer Price Index-All Urban Consumers increased 110.6 percent. In response to the apparent severe change in economic conditions, the Department initiated a study of the standards of need and the AFDC payment levels in 1984.

Ernst and Whinney Study on the Locality Grouping System

In April 1984, the Virginia Department of Social Services contracted with Ernst and Whinney to perform the Standards of Need Study for the Aid to Families with Dependent Children program. Ernst and Whinney was a professional firm offering a variety of services to clients, including audit, tax, and management consulting. A significant amount of the study was dedicated to assessing whether the standards of need in existence at that time adequately reflected the needs of the AFDC and General Relief populations. One of the primary purposes of the study was to make recommendations to the Department concerning the best methodology to "[e]nable the department to set fair and reasonable standards of need for Virginia within the dictates of state and federal laws, policies and fiscal constraints." The study sought a methodology of establishing the standards of need that would be "easily replicable by the Department for periodic assessment of the validity of the standards of need established therefrom [sic]."

The majority of the study was dedicated to analyzing and assessing:

- the portion of AFDC recipients receiving other benefits, such as food stamps, medical assistance, public or subsidized housing and other benefits at public expense; and

- whether the payment levels from other programs should be counted as income for determining the standards of need and the payment levels.

To a much lesser degree, the Ernst and Whinney study looked at the equity or inequity of the locality grouping system. On November 28, 1984, Ernst and Whinney concluded its study and submitted a report to the Virginia Department of Social Services.

In assessing the equities of the locality grouping system, Ernst and Whinney used the U.S. Department of Housing and Urban Development's (HUD's) Fair Market Rents (FMRs). Fair Market Rents determine the eligibility of rental housing units for the Section 8 Housing Assistance Payments program. Ernst and Whinney determined that using the HUD's FMRs data relative to two-bedroom apartments to analyze the differences in shelter-cost among the various localities was the most reasonable approach since the assistance units of two and three persons (users of two-bedroom units) represented approximately 70 percent of the total caseload population. The report argued that the HUD's FMRs data was a "valid and objective data source to use in recommending groupings since the housing included in the HUD's FMRs data represents Section 8 housing which must meet the criteria of decent, safe, and sanitary housing."

The report specifically addressed the criticism that the locality grouping system unfairly categorized contiguous localities with common economic and social elements into different classifications. Using the HUD's FMRs approach was "reasonable and practicable" because it takes "into account the clustering of costs around central points and does not arbitrarily assign local agencies to a particular group." This approach ensures that contiguous localities are grouped in a "logical and consistent manner." The report asserted that it was important to apply consistent and equal treatment within the localities of a Metropolitan Statistical Area (MSA) and the HUD's FMRs data does that by taking into consideration the relevant costs for the entire area. "To use different costs and make exceptions for localities within a MSA would necessitate additional significant data collection and analysis for those localities which would increase the complexity and effort to support the system."

Using HUD's FMRs, Ernst and Whinney found significant differences in shelter costs in the various counties and cities in the Commonwealth and that the locality groupings need to be changed. Using the HUD's FMRs data for two-bedroom apartments, the report stated that the ranges in shelter cost for a two-bedroom apartment per month for each group should be:

- Group I $349 and below
- Group II $361 to $376
- Group III $389 to $414.

According to the Ernst and Whinney analysis, Group I had 53 localities; Group II had 40 localities; and Group III had 38 localities. Using this new grouping system, 72 localities would have changed their grouping level. The following represents the changes that would have been made:

- Move from Group I to Group II 33 localities
- Move from Group I to Group III 15 localities
- Move from Group II to Group I 8 localities
- Move from Group II to Group III 13 localities
- Move from Group III to Group I 1 localities
- Move from Group III to Group II 2 localities.

A decision was made not to implement the recommendations because of the large number of localities that would have changed group levels and the impact on a significant number of AFDC recipients.

STUDY METHODOLOGY FOR HJR 772 (2001)

Following passage of HJR 772 (2001), the Department convened a study group to research and explore the issues related to the locality grouping system. The study group included TANF program staff and research and policy staff as well as representatives from the Department of Planning and Budget. The study group collected information; reviewed and analyzed the data; and developed possible options for locality groupings.

The study group collected data and information on: 1) the history of locality groupings in Virginia; 2) issues related to changing the locality groupings; 3) payment grouping practices in other states; and 4) options for modifying the locality groupings.

Researching the history of the locality groupings in Virginia involved:

- Interviewing Department staff who have knowledge of the grouping decisions that were made over the last 30 years;

- Retrieving and reading documents related to past locality grouping decisions;

- Identifying the current locality groupings; and
- Determining whether other related programs are affected by changes in the locality groupings.

A short survey was faxed to TANF programs in all other states requesting information on how their state determined the amount of the TANF payment. Telephone follow-ups were conducted with states that did not respond to the faxed survey.

The study group gathered background information on several federal data sources including: the U.S. Department of Housing and Urban Development's Fair Market Rates, the U.S. Bureau of Census 2000 locality specific data, and the U.S. Department of Labor's Consumer Expenditure Survey.

Information on the 2000 Census data and the national Consumer Price Index was obtained from the appropriate agency web sites[1] and follow-up telephone conversations with key agency staff. The additional information sought through telephone conversations included access; scope; data format; timing; availability; level of detail; and frequency. The 2002 HUD FMRs were downloaded from HUD's website and used in development of some of the grouping options detailed in the report.

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[1] www.census.gov and www.bls.gov

The study group also considered the possibility of developing a Virginia Consumer Expenditure Survey. A cost estimate was developed for this process based on the U.S. Bureau of Labor Statistics model.

In addition to these federal resources, the study group also retrieved information and data on:

- Virginia Planning Districts, as defined by the Department of Housing and Community Development; and

- TANF case benefit payments during state fiscal year 2001 from the Application Delivery Automation Project (ADAPT) database.

Analysis included a review and synthesis of the historical materials and state survey data. The pros and cons of the other data sources were all considered and TANF reauthorization was identified as a possible factor in determining the timing for any proposed changes.

The review of the collected information highlighted the complexity of the issue and the far-reaching ramifications of locality grouping decisions. With the information gleaned, the study group identified a variety of locality grouping options. For each of the options, appropriate spreadsheets were developed and the potential recipient, program, and fiscal impacts were explored.

OTHER RELEVANT CONSIDERATIONS

There are several factors that must be considered when determining what, if any, changes need to be made to the locality grouping system.

In 1996, Congress enacted the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). PRWORA yielded the Temporary Assistance for Needy Families Program (TANF) that replaced Aid to Families with Dependent Children (AFDC). Authorization for the TANF Program expires in federal fiscal year 2002. A number of issues prominent in the 1995-1996 battle over welfare reform are likely to resurface in the upcoming TANF reauthorization. Central to the debate will be the funding component. During the same time period, Congress will also consider other legislation affecting low-income families and their children, including the reauthorization of the Food Stamp and child care programs, and the future of Welfare-to-Work legislation.

When Congress authorized the TANF program, a block grant was given to each state to operate the program. The amount of the block grant was determined by prior years expenditures in the AFDC Program. States were told that once TANF benefits had been paid to recipients, TANF block grant funds could be spent on any program that met one of the purposes of TANF. A decision has been made by the Department and the General Assembly to pay for some eligible programs using TANF dollars instead of General Fund dollars. The Department receives $158 million in TANF block grant funds annually, and is currently exceeding this amount in TANF spending by approximately $30 million, which is supplemented with TANF reserve funds. These reserve funds are nearing exhaustion.

To balance these expenditures, TANF spending will have to be reduced. To further complicate this situation, the Department is uncertain how much federal funding will be allocated during the TANF reauthorization. Since welfare rolls have been reduced across the country, it is possible the amount of federal funding for the TANF program will be reduced. If so, the Department will be forced to make further adverse budget modifications to non-mandated TANF programs and activities to supplement the funding shortage. This may require the Department to request General Fund dollars for programs that are now receiving TANF money and/or eliminate some programs. If a modification is made to the locality grouping system that requires more money to be spent on TANF benefits, a larger number of programs may have to be paid for out of General Fund dollars and/or eliminated.

TANF recipients who are transferred to a lower grouping will be adversely affected because they will receive a lower benefit amount. Currently, the most a single mother, with two eligible children, can receive in a Group III locality is $389. Taking into account the economic climate, this amount is probably not enough to make ends meet. If the locality that this mother is living in were moved to Group I, she would receive $320. With this reduction in benefits, it would be even more difficult to meet financial obligations.

Localities transferred to a lower grouping could be significantly impacted. When a locality is transferred to a lower grouping, recipients will receive a lower payment amount. If recipients are unable to provide for their basic needs, localities will be forced to supplement any reduction in public assistance with local funds or services. This would create an un-funded mandate.

Any changes to the current locality grouping system will require the Department to modify the automated information system, Application Benefit Delivery Automation Project (ADAPT). ADAPT is used to determine TANF eligibility. Since eligibility workers rely on the ADAPT system to process data to learn if an applicant is eligible for TANF, changes to ADAPT will necessitate retraining of the eligibility workers.

ASSESSMENT OF HOW OTHER STATES DETERMINE TANF PAYMENTS

The Department surveyed 45 states and the District of Columbia requesting information on how TANF payments were determined in their jurisdiction. Thirty-seven states provided information.

Most states use one payment standard for all localities. However, most states also have much less variability in the cost of living across localities. For example, as shown on the table on the next page, 43 states have a smaller ratio of highest to lowest HUD's fair market rent (FMR). Virginia, with a ratio of 2.12, has one of the highest spreads between highest and lowest FMR. With the large difference between highest and lowest FMR, it is clear that a single state standard may not be appropriate in Virginia.

State Ratio of Highest Fair Market Rent (FMR) to Lowest FMR

State	Lowest FMR	Highest FMR	Ratio Highest to Lowest	State	Lowest FMR	Highest FMR	Ratio Highest to Lowest
California	$503	$1747	3.47	West Virginia	$379	$611	1.61
New York	495	1230	2.48	Vermont	509	815	1.60
Massachusetts	576	1383	2.40	Oklahoma	372	578	1.55
Colorado	520	1173	2.26	Wyoming	451	690	1.53
Illinois	395	891	2.26	North Dakota	387	590	1.52
Texas	402	887	2.21	Maine	509	775	1.52
Virginia	**445**	**943**	**2.12**	Alabama	359	545	1.52
Georgia	427	878	2.06	Idaho	432	655	1.52
Minnesota	433	862	1.99	Mississippi	378	573	1.52
Conneticut	697	1384	1.99	Kentucky	373	565	1.51
Alaska	584	1101	1.89	Utah	477	721	1.51
New Mexico	413	775	1.88	Arizona	503	760	1.51
Pennsylvania	451	839	1.86	Oregon	496	747	1.51
North Carolina	424	777	1.83	Nebraska	410	608	1.48
Tennessee	364	660	1.81	Louisiana	376	545	1.45
Missouri	371	671	1.81	South Carolina	422	600	1.42
Maryland	521	930	1.79	Kansas	412	582	1.41
New Hampshire	509	897	1.76	New Jersey	748	1050	1.40
Michigan	441	765	1.73	Arkansas	380	531	1.40
Florida	494	828	1.68	Iowa	430	597	1.39
Ohio	434	726	1.67	South Dakota	442	600	1.36
Washington	509	845	1.66	Rhode Island	650	880	1.35
Indiana	426	700	1.64	Montana	474	599	1.26
Hawaii	696	1133	1.63	Nevada	621	783	1.26
Wisconsin	432	699	1.62	Delaware	609	727	1.19

States with standard payment groupings use a variety of approaches. Some use geographically defined groups and others use case characteristic defined groups. In California and Vermont, payments are based on the region of the state where the recipient resides. California has two regions. The amount of the payment for each region is based on the basic needs standards in that region, including the costs for shelter; utilities; food; clothing; and fuel. In Vermont the groupings are rural (80 percent of the cases) and urban (20 percent of the cases). The amounts of the payments are based on the costs for food; fuel; utilities; and clothing.

South Dakota bases its groupings on the assistance unit's living arrangement. The first grouping receives the highest payment amount and requires the recipient to live alone with his/her children. The second grouping includes either children living with a relative or children who are placed in a home by the agency. In the third grouping, the children live with their parent(s), but only the children are eligible for assistance. The last grouping receives the lowest payment amount and includes recipients who share living expenses with other members of the household.

In Florida and Washington State, payments are based on the assistance unit's obligation to pay for shelter. Washington State has a two-payment schedule. The higher payment amount is issued to recipients who are obligated to pay all or part of shelter costs. Families who do not have any shelter costs receive a lower payment amount. However, homeless families receive the higher payment amount to facilitate their ability to obtain housing. In Florida, the highest payment amount is given to recipients who have a shelter cost greater than $50.00. The middle amount is issued to recipients having shelter cost between $1.00 and $50.00. Recipients having no shelter cost receive the lowest payment.

Eligibility and case specific payment benefit policies further confound the payment standard grouping debate. Most states consider size of the assistance unit, actual countable income, and some individual expenses in determining case specific eligibility and the monthly TANF benefit.

Some states factor shelter costs in the eligibility and payment amount calculation for individual TANF cases, but not in the payment standard. Other states also consider living arrangements, employment status, and factors such as heating costs into their individual case and payment calculations.

Some states, like Virginia, consider earned income and the number of eligible persons in the TANF assistance unit. Some states consider only the number of persons in a TANF eligible household when determining the TANF payment amount. Other states consider a range of income, expense, and assistance size characteristics in determining eligibility and payment amounts. A few states use a flat payment system for all localities, regardless of the number of eligible persons in the household.

Some states have “eligibility” groupings. They have one payment standard across all localities or all classes of assistance units. However, when eligibility is determined and the actual size of the assistance unit's payment is calculated, a “group” factor is considered.

For example, Wisconsin's grouping system is titled “Wisconsin Works (W-2)”. Each applicant/recipient meets with a Financial and Employment Planner to develop a self-sufficiency plan and determine his/her level in the W-2 program. The first two levels of W-2 are unsubsidized and subsidized employment. TANF payments are not provided in these levels. TANF benefits are provided in the latter two levels of the program. Recipients in the third level are required to attend employment-training seminars and receive assistance with permanent employment placement. TANF payments are discontinued once the recipient becomes employed. Recipients in the fourth level have some sort of severe “barrier” which prevents them from becoming gainfully employed. Barriers could include mental and/or physical impairments and drug or alcohol abuse. Recipients are required to attend workshops to facilitate overcoming the barrier and are moved into one of the other levels once he/she meets this goal.

OPTIONS

Below are the pros and cons for several options to modify the current locality groupings.

Option 1: Maintain the Current Groupings and Add an Appeals Process

The first option is to make no changes to the current locality grouping system and implement an appeal process, whereby a locality could challenge its current grouping by petitioning the State Board of Social Services. An appeal process that allows a locality to challenge the degree of equity in its locality grouping placement would address some of the concerns that initiated the need for HJR 772, but limit the fiscal impact on recipients that creating an entirely new locality grouping system would cause.

A locality could decide whether a change in its locality grouping was warranted. When the local department petitioned the State Board, the local department would be provided the opportunity to present evidence that its current grouping does not "achieve the highest degree of equity." The local department could present evidence of differences in living costs in that locality compared to other localities. The State Board would take the evidence into account. After due consideration, if the State Board found that significant differences in the living cost did exist, then the State Board could approve an amendment of the locality's current locality grouping.

Inserting the italicized language to the existing language in Section 63.1-110 of the *Code of Virginia* should provide the State Board with the authority to implement an appeal process.

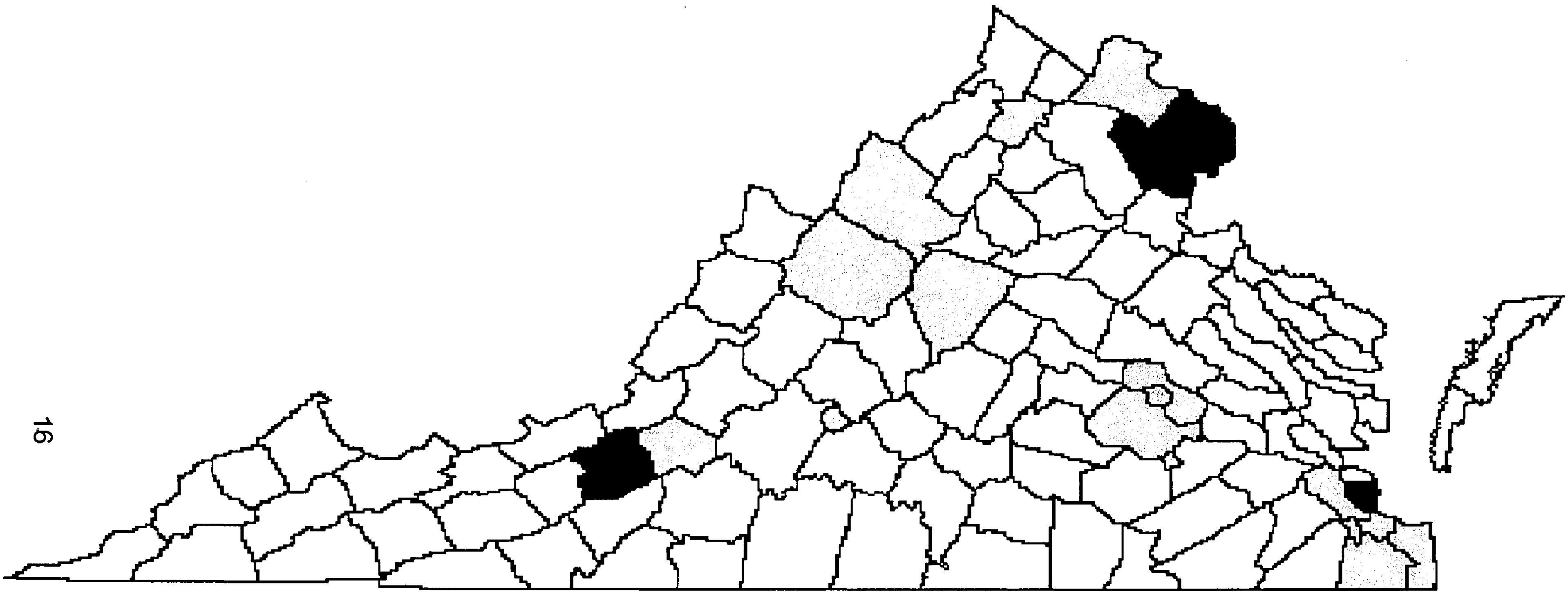
> The State Board shall adopt rules and regulations governing the amount of assistance persons shall receive under the provisions of this law. In making such rules and regulations, the Board shall give due consideration to significant differences in living costs in various counties and cities and shall establish or approve such variations in monetary assistance standards for shelter allowance on a regional or local basis, as may be appropriate in order to achieve the highest practical degree of equity in public assistance grants. *A local department of social services may petition the Board to reconsider the differences in living costs in the county or city where that local department is located. The Board shall have the authority to approve a variation in monetary assistance standards for shelter allowance for the petitioning local department as may be appropriate to achieve the highest practical degree of equity in public assistance grants.*

Language would also need to be added to the *Code* that would require the Department to develop emergency regulations. See Appendix II for a suggestion on how Section 63.1-110 might be amended.

Regulations would need to be developed to clarify the State Board's authority in granting or denying the local department's request for a change in locality grouping. The regulations should provide guidance concerning what type of evidence the local department needs to present to demonstrate that a change in grouping is warranted. It should clarify that, when considering the local department's request, the State Board needs to consider the equitable impact upon other localities as a result of any change. The regulations also need to delineate the scope of the State Board's powers to make changes to the locality grouping. For example, the State Board should only be given authority to change the locality grouping of the local department that has petitioned the State Board. The State Board should not be allowed to change the locality grouping of local departments because a different local department petitioned for a change.

This option would allow individual agencies to be examined by the State Board, but would not require significant changes to be made to the current groupings. The map on page 16 shows the current locality groupings.

Current Locality Groupings



Group I – All Other Localities - WHITE

Group III Localities - BLACK

FIPS	LOCALITY NAME	FIPS	LOCALITY NAME
013	Arlington	570	Colonial Heights
059	Fairfax Co.	630	Fredericksburg
121	Montgomery	650	Hampton
153	Prince William	683	Manassas
510	Alexandria	685	Manassas Park
540	Charlottesville	820	Wavnesboro

GROUP II Localities - GRAY

FIPS	LOCALITY NAME	FIPS	LOCALITY NAME	FIPS	LOCALITY NAME
003	Alemarle	580	Covington	740	Portsmouth
015	Augusta	660	Harrisonburg	750	Radford
041	Chesterfield	670	Hopewell	760	Richmond
087	Henrico	678	Lexington	770	Roanoke
107	Loudoun	680	Lynchburg	790	Staunton
161	Roanoke Co.	690	Martinsville	810	Virginia Beach
165	Rockingham	700	Newport News	830	Williamsburg
187	Warren	710	Norfolk	840	Winchester
550	Chesapeake	730	Petersburg		

Option 2: Use the United States Department of Housing and Urban Development's Fair Market Rents to Determine Classification

Another option is to use the United States Department of Housing and Urban Development's fair market rents as a basis for updating shelter costs. Section 8 of the United States Housing Act of 1937 authorizes housing assistance to help lower income families rent decent, safe, and sanitary housing. The amounts of the housing assistance payments are limited by fair market rents (FMRs) established by the United States Department of Housing and Urban Development (HUD) for all areas and for different size units. In general, the FMR for an area is the amount that would be needed to pay the gross rent (shelter plus utilities, except telephone) of privately owned, decent, safe and sanitary rental housing of a modest nature with suitable amenities.

The HUD's FMRs could be used in two methods. The first method modifies the current locality grouping system by grouping localities according to their 2002 HUD's fair market rents. The second method would group localities using the 2002 HUD's fair market rents to establish a regional model.

Section 8 (c)(1) of the United States Housing Act of 1937 requires the Secretary of HUD to publish FMRs periodically, but no less frequently than annually to be effective on October 1 of each year. The FMRs incorporate the United States Office of Management and Budget's OMB most current definitions of metropolitan areas. HUD uses the OMB Metropolitan Statistical Area (MSA) and Primary Metropolitan Statistical Area (PMSA) definitions for FMR areas because they closely correspond to housing market areas definitions. FMRs are also established for nonmetropolitan counties and county equivalents. FMRs for the nonmetropolitan areas in Virginia were established by combining the Census data for the nonmetropolitan counties with the data for the independent cities that are located within the county borders.

There are a number of benefits to using the HUD's FMRs approach. It can be argued that using the HUD's FMRs data relative to two-bedroom apartments is a reasonable approach to analyzing the differences in shelter-cost among the various localities given that assistance units of two and three persons (users of two-bedroom units) represent over 60 percent of the total TANF caseload. Using HUD's FMRs data provides a basis for establishing a methodology that would be easily replicable by the Department for periodic assessment of the validity of the locality groupings. Using the HUD's FMRs data ensures that contiguous localities with common economic elements are grouped in a logical and consistent manner. The HUD FMR data reliance on Metropolitan Statistical Areas ensures consistent and equal treatment within the localities of a MSA because the relevant costs from the entire area are taken into consideration.

However, there are concerns about using HUD's FMRs as a basis for TANF groupings:

- FMRs are not designed to measure relative rents between areas, they are used as rental data for Section 8 housing programs and rental voucher programs in a jurisdiction;
- FMRs are calculated using the 40^{th} percentile for shelter rent plus utilities (excluding telephone) in an area for standard quality housing – they do not include public housing rents or rents for newer units;
- There exist no techniques that would allow for the determination of relative rents by jurisdiction within a metropolitan area; and
- Since the rent estimates are used as part of the Section 8 program, a minimum FMR policy was adopted for rural areas that sets the FMR at the higher of the rural jurisdiction's FMR or the statewide average of nonmetropolitan FMRs. Thus, for some Virginia jurisdictions, the FMR may not reflect actual rent levels.

The 2002 HUD data for fair market rents cover 131 cities and counties in Virginia. The fair market rent value amounts range from a low of $445.00 to a high of $943.00. Thirteen localities, or 10 percent, fall into the highest fair market rent of $943.00. All of these localities are in Northern Virginia. Forty-nine localities, or 37 percent, fall in the lowest amount category of $445.00. Thirty localities, or 23 percent, fall between $652.00 and $693.00. Currently, no localities fall into the range of $694.00 and $942.00.

Below are two methods that incorporate the HUD's proposed 2002 fair market rents.

Method 1: Create New Locality Groupings by Updating Shelter Costs Based on the United States Department of Housing and Urban Development's Proposed 2002 Fair Market Rents

This method modifies the current locality grouping system by grouping localities according to their 2002 HUD's fair market rents. By updating the original 1974 locality groupings using the 2002 proposed fair market rents, the incongruities apparent within the current locality grouping system dissipate. For example, localities in Northern Virginia (such as Fairfax and Arlington counties) with fair market rates of $943.00 remain in Group III. However, rural localities, such as Waynesboro and Montgomery County with fair market rents of $473.00 and $477.00, respectively, move from Group III to Group I. In addition, Martinsville, which is served by the same local department as Henry County, would move from Group II to Group I, thereby becoming consistent with the placement of Henry County. Given that both Martinsville and Henry County have the same fair market rents and are served by the same local department of social services, such consistency is desirable.

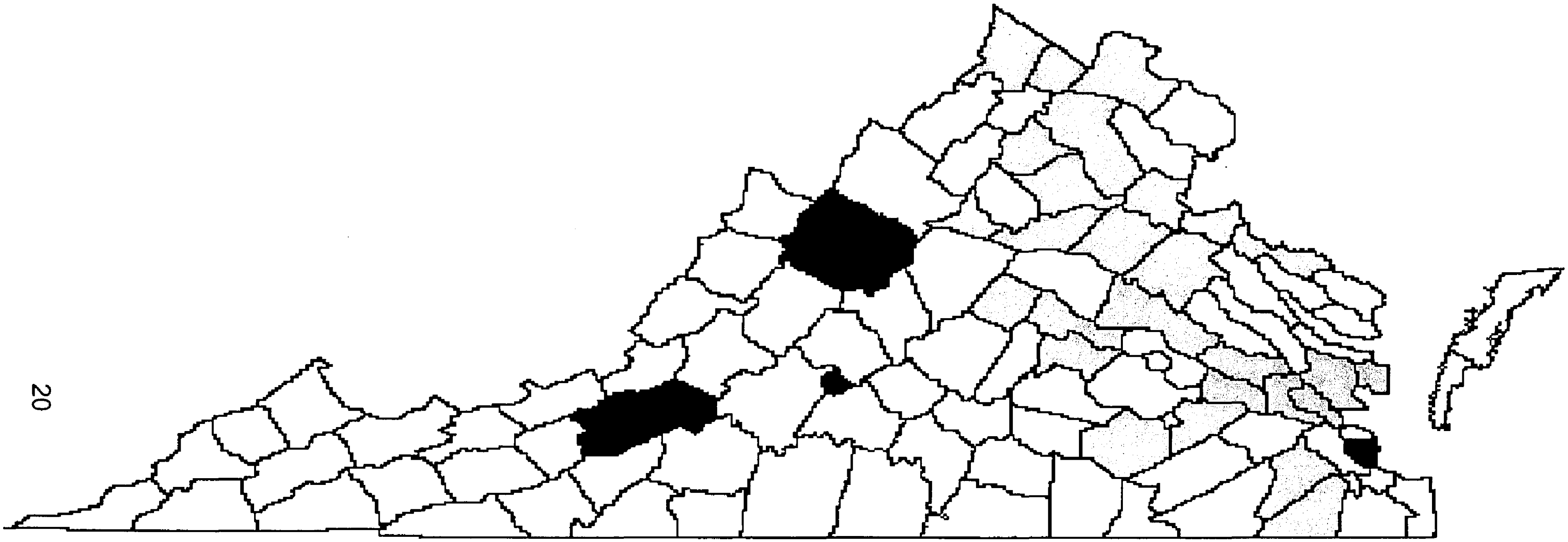
Under this method, 41 localities would change groupings. Fourteen localities move to a lower grouping, while 27 localities move to a higher grouping. If the TANF expenditures for June 2000 through May 2001 were used ($94,086,733.00) to determine the amount of change in expenditures that would occur as a result of the new groupings, the TANF expenditures would decrease by $1,094,530. The amount of TANF benefits paid to recipients in those localities moving to a higher grouping would increase by $1.2 million. Recipients in those localities moving to a lower grouping would receive $2.3 million less in TANF benefits. The chart below presents the changes that would occur as a result of implementing this method.

TANF GROUPING STUDY EXPECTED CHANGES
2002 HUD Fair Market Rents

Group	***Variable***	**Change from Current Grouping to Option 1**	
TANF Cases	**Average Monthly Number with...**	**N**	**%**
	...Increased Benefits	2,292	8%
	...The Same Benefits	23,545	79%
	...Decreased Benefits	3,833	13%
Local Social Service Agencies	**Number of Localities that...**		
	...Move Up 1 or 2 Groups	27	21%
	...Stay in the Same Group	86	68%
	...Move Down 1 or 2 Groups	14	11%
State/Federal TANF Benefit Dollars	Estimated Total Annual Change in TANF Benefit Payments	($1,094,530)	

The map on page 20 shows the locality groupings that using the 2002 HUD's fair market rents create.

Method 1: Locality Groupings Based on HUD's Proposed 2002 Fair Market Rents



Localities with Increase in TANF Grouping - Gray

FIPS	Locality Name	FIPS	Locality Name	FIPS	Locality Name
033	Caroline	075	Goochland	145	Powhatan
036	Charles City	079	Greene	149	Prince George
043	Clarke	085	Hanover	157	Rappahannock
047	Culpeper	093	Isle of Wight	177	Spotsylvania
053	Dinwiddie	095	James City	179	Stafford
061	Fauquier	099	King George	193	Westmoreland
065	Fluvana	107	Loudon	199	York/Poquoson
069	Frederick	115	Mathews	800	Suffolk
073	Gloucester	127	New Kent		
075	Goochland	137	Orange		

Localities with Decrease in TANF Grouping – Black

FIPS	Locality Name	FIPS	Locality Name
015	Augusta	678	Lexington
121	Montgomery	680	Lynchburg
161	Roanoke County	690	Martinsville
540	Charlottesville	750	Radford
570	Colonial Heights	770	Roanoke City
580	Covington	790	Staunton
650	Hampton	820	Waynesboro

Method 2: Create New Locality Groupings by Combining the United States Department of Housing and Urban Development's Proposed 2002 Fair Market Rents with Planning Districts

The *Code of Virginia* specifically provides the State Board with the authority to establish or approve variations in monetary assistance standards for shelter allowance on a regional or local basis. One method that could be considered is basing the locality grouping system on a regional model, such as the planning district model.

Chapter 42 of Title 15.2 of the *Code of Virginia* creates planning district commissions throughout the Commonwealth. Section 15.2-4207 states, "the purpose of the planning district commission is to encourage and facilitate local government cooperation and state-local cooperation in addressing on a regional basis problems of greater than local significance." A planning district is a contiguous area within boundaries established by the Virginia Department of Housing and Community Development (DHCD). The DHCD has the authority to adjust boundaries of planning districts.

Section 15.2-4201 of the *Code* states that the purpose of creating a planning district is "to improve public health, safety, convenience and welfare, and to provide for the social economic and physical development of communities and metropolitan areas of the Commonwealth on a sound and orderly basis, within a governmental framework and economic environment which will foster constructive growth and efficient administration." Section 15.2-4207(A) states that central to the issue of regional cooperation is the ability "...to recognize and analyze regional opportunities and take account of regional influences in planning and implementing their public policies and services."

There are 21 planning districts in Virginia. The boundaries of the localities are contiguous. Planning districts provide a reasonable method of grouping localities with common indicators together for the purpose of assessing the cost-of-living on a regional level rather than on a locality specific level. One of the criticisms of the current locality grouping system is that contiguous cities and counties with similar economic and socioeconomic indicators are placed in different groupings. A prime example of this conflict is Henry County and Martinsville. The same local department of social services serves both Martinsville and Henry County. When the local department provides public assistance to an individual, the local department must ascertain whether the individual is a resident of the county or the city. The problem that arises is that, although the city and county share similar socioeconomic indicators, where the individual resides determines the amount of public assistance he/she will receive.

A possible method of linking the locality grouping system with the planning district method would be to average the fair market rents for each locality within a planning district. The average fair market rent for that planning district would then determine the locality grouping for each of the localities within the planning district.

If the locality grouping system was modeled on such a planning district concept, the above-mentioned incongruity (two contiguous localities with similar economic indictors being placed in different groupings) would not occur. Henry County (currently Group I) and Martinsville (currently Group II) are both part of the West Piedmont Planning District. The West Piedmont Planning District also includes the counties of Franklin, Patrick and Pittsylvania, and the city of Danville. Using the planning district method, each locality in the West Piedmont Planning District would be placed in the same group.

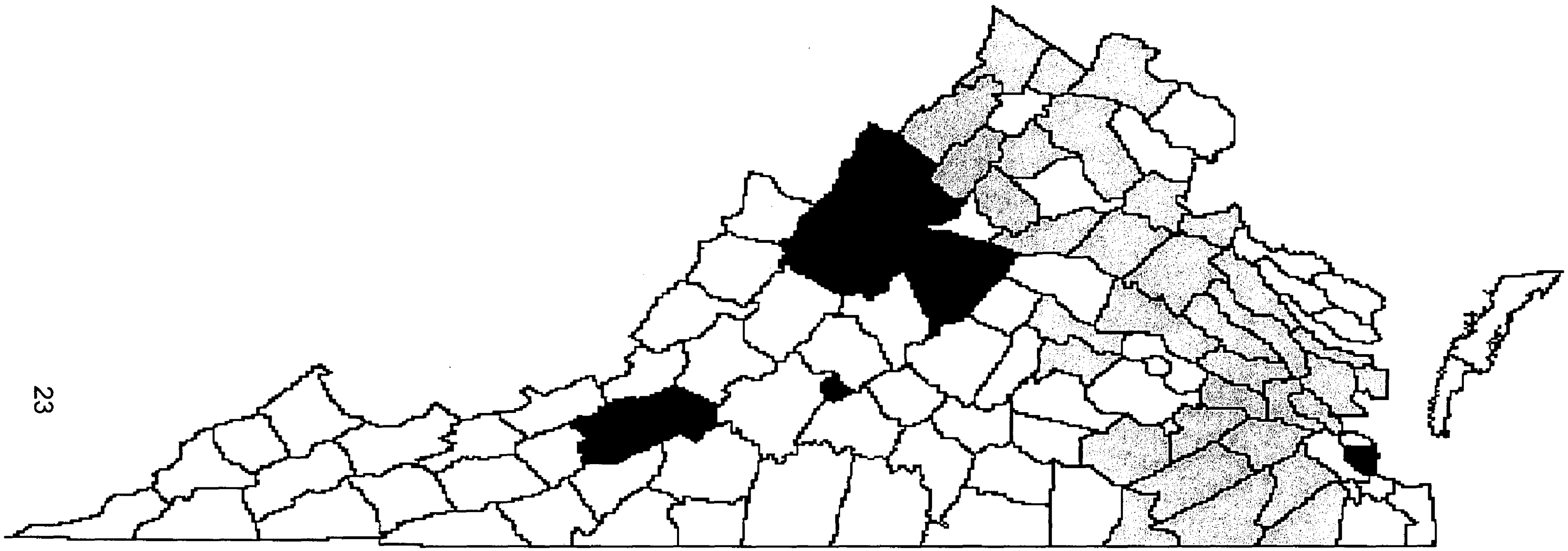
Under this method, 56 localities would change groupings. Fourteen localities move to a lower grouping, while 42 localities move to a higher grouping. Only two localities move two tiers. Although more localities change groupings under this method than under the method of creating new groupings by using only the HUD's FMRs, the degree of movement between tiers is less significant (i.e., moving one tier, Group I to Group II, rather than moving two tiers, Group I to Group III). If the TANF expenditures for June 2000 through May 2001 were used ($94,086,733.00) to determine the amount of change in expenditures that would occur as a result of the new groupings, the TANF expenditures would decrease by $1,201,035. The amount of TANF benefits going to recipients in those localities moving to a higher grouping would increase by $1.3 million. Recipients in those localities moving to a lower grouping would receive $2.5 million less in TANF benefits. The chart below presents the changes that would occur as a result of implementing this method.

TANF GROUPING STUDY EXPECTED CHANGES
2002 HUD Fair Market Rents and Planning Districts

Group	*Variable*	Change from Current Grouping	
TANF Cases	**Average Monthly Number with...**	**N**	**%**
	...Increased Benefits	2,807	9%
	...The Same Benefits	22,713	77%
	...Decreased Benefits	4,150	14%
Local Social Service Agencies	**Number of Localities that...**		
	...Move Up 1 or 2 Groups	36	28%
	...Stay in the Same Group	76	59%
	...Move Down 1 or 2 Groups	17	13%
State/Federal TANF Benefit Dollars	Estimated Total Annual Change in TANF Benefit Payments	($1,201,035)	

The map on page 23 shows the locality groupings that would be created by using the 2002 HUD's FMRs to establish a regional model.

Method 2: New Locality Groupings by Combining the HUD's Proposed 2002 Fair Market Rents with Planning Districts



Increase in TANF Grouping - GRAY

FIPS	Locality Name	FIPS	Locality Name	FIPS	Locality Name	FIPS	Locality Name
033	Caroline	075	Goochland	113	Madison	171	Shenandoah
036	Charles City	081	Greensville/ Emporia	115	Mathews	175	Southampton
043	Clarke	085	Hanover	119	Middlesex	177	Spotsylvania
047	Culpeper	093	Isle of Wight	127	New Kent	179	Stafford
053	Dinwiddie	095	James City	137	Orange	181	Surry
057	Essex	097	King & Queen	139	Page	183	Sussex
061	Fauquier	099	King George	145	Powhatan	199	York/ Poquoson
069	Frederick	101	King William	149	Prince George	620	Franklin
073	Gloucester	107	Loudon	157	Rappahannock	800	Suffolk

Decrease in TANF Grouping – BLACK

FIPS	Locality Name	FIPS	Locality Name
003	Albemarle	650	Hampton
015	Augusta	660	Harrisonburg
121	Montgomery	678	Lexington
161	Roanoke Co.	680	Lynchburg
165	Rockingham	690	Martinsville
540	Charlottesville	750	Radford
570	Colonial Heights	770	Roanoke
580	Covington	790	Staunton
630	Fredericksburg	820	Waynesboro

Option 3: Create a Virginia Locality-Specific Consumer Price Index for Assessing the Cost-of-Living

The Department could assess the cost-of-living by locality by creating a Virginia locality-specific Consumer Price Index comparable to the United States Consumer Price Index. Such an index would be the basis for assessing the cost of living in the various counties and cities in the Commonwealth. The United States Consumer Price Index is not locality specific; therefore, it would not be helpful in determining the cost of living in the various counties and cities throughout the Commonwealth. However, the model for the Untied States Consumer Price Index could be the basis for creating a Virginia locality-specific consumer price index.

The United States Consumer Price Index is based on a “market basket” developed from detailed expenditure information provided by families and individuals on what they actually bought. The “market basket” includes: food and beverages; housing; apparel; transportation; medical care; recreation; education and communication; and other goods and services (such as tobacco and smoking products; haircuts and other personal services; and funeral expenses).

It must be recognized that the United States Consumer Price Index not only reflects the prices of items but also their level of consumption. Thus a daily trip to work might be determined by the price of gasoline and the amount of gallons consumed or the cost of a ride on a public transportation system. Prices and consumption levels will differ across Virginia’s jurisdictions. Thus, a cost-of-living index designed to reflect differences in the costs of living in a particular jurisdiction would require that consumption data for a sample of TANF families be collected within each jurisdiction.

Creating a Virginia Consumer Price Index would require development and regular maintenance of a consumer expenditure survey for the purpose of developing a Virginia locality-specific consumer price index. Four issues make this an impractical suggestion: (1) data accuracy and completeness; (2) level of effort; (3) sampling frame; and (4) fiscal resources.

Data accuracy and completeness are essential to developing a reliable and valid consumer price index. There is a chance that most respondents to a phone survey would not be able to recall their expenditures during the past week. Response rates to mail surveys are notoriously low. The response rate would undoubtedly be even lower for a questionnaire that sought detailed personal financial information. Response rates for telephone surveys are better, but the accuracy of the data collected would be questionable.

A consumer expenditure survey that would yield accurate data for a Virginia locality specific Consumer Price Index would be a substantial undertaking. The United States Consumer Price Index reported data covers a rolling three-year average. The United State Bureau of Labor Statistic's (BLS) Consumer Expenditure Survey defines the information needed for calculation of a Consumer Price Index. The Consumer Expenditure Survey includes samples of households that complete a survey and samples that complete weekly expenditure diaries. The process is labor intensive. Samples are interviewed every quarter, with a total of 7,500 cases in the sample each quarter. As reported in BLS' web page:

> "Data collection is carried out by the Bureau of the Census under contract with BLS. In the Interview Survey, each consumer unit is interviewed every 3 months over five calendar quarters. In the initial interview, information is collected on demographic and family characteristics and on the inventory of major durable goods of the consumer unit. Expenditure information is also collected in this interview but is used only to prevent duplicate reporting in subsequent interviews. Expenditure information is collected in the second through the fifth interviews using uniform questionnaires. Income and employment information is collected in the second and fifth interviews. In the fifth interview, a supplement is used to account for changes in assets and liabilities. In the Diary Survey, respondents are asked to keep track of all their purchases made each day for two consecutive 1-week periods. Participants receive each weekly diary during a separate visit by a Census interviewer."

While BLS clearly invests considerable resources into assuring quality data collection, even they have questions about the process and results of their expenditure survey. Among the research projects currently being conducted by BLS are studies; (1) testing alternative diary instruments for differences in response rates and quality of information; (2) examining the use of global-type questions and respondent aids to improve the recall of expenditures; and (3) testing methods for improving the quality of income data reported in the survey. Clearly, even the experts in this field recognize the need for improving the data collection on this topic.

Thus, one question about a Virginia Locality-specific Consumer Price Index is whether Virginia is prepared for such a massive undertaking in order to assure appropriate credibility for results of an expenditure survey. If an expenditure study is conducted in a less labor-intensive manner, there will be serious questions about measurement error and validity.

The Virginia Locality-Specific Consumer Price Index proposal suggests surveying TANF cases. However, during any year there are about 1.5 times the number of TANF cases as there are active TANF cases at any one point in time. Furthermore, at any point in time there are families with "TANF-like" economic circumstances who have not sought assistance in years. Are their spending habits of less relevance than the current TANF population's spending habits?

Should the standards be set based on people who are actually on TANF or all who could be on TANF?

While surveys are a familiar vehicle for collecting information, a consumer expenditure survey that yields locality specific estimates of cost of living is a daunting undertaking. There are 136 localities in Virginia. For accurate estimates in each of these localities, an average sample size of at least 100 cases per locality is needed. In some localities fewer than the minimum 100 cases could be selected because of their small population size. But in other localities, politics and science would drive the need for more than the minimum 100 cases. Thus, the number of cases that would have to be surveyed for locality specific estimates would be at least 10,000 cases.

Assuming that accurate data could be collected from these 10,000 plus cases, that the data collection will be mixed-mode (some phone, some mail and some in-person interviews), and that each locality will want their decision based on a valid representation with a high response rate, per case survey costs could easily approach $500. It is not unusual for this type of survey to have this level of per case cost, particularly if an appropriately high response rate (75 percent or higher) is to be achieved. These costs include: financial incentives to respondents to encourage a high response rate; study planning; meeting time; survey analysis; and interim and final reports, as well as contractor overhead.

Thus, a cost estimate for creating a Virginia Locality-Specific Consumer Price Index is a **minimum of $5 million**. This is $5 million for one time information. Every few years, when the economy changes and localities are looking for updated information, the process would have to be repeated.

Option 4: Establish a Flat Rate Standard of Need for All Localities in the Commonwealth

One flat payment amount could be given to recipients no matter where they reside, rather than differentiating the cost of living among the various localities throughout the Commonwealth in order to determine the amount of public assistance a recipient is to receive. Thus the same amount of assistance would be issued to all recipients with a like number of eligible persons in the household regardless of the locality in which the recipient resides.

Several different approaches could be taken to determine a flat rate standard of need in the state. The most direct approach is to divide the total TANF benefit dollars by the total TANF cases for state fiscal year 2000. This yields a flat rate standard of need of $263 per month. Under this approach, the recipients in the current Group I and Group II localities would experience a small increase in TANF benefits while the recipients in Group III localities would experience a large decrease. Using this approach, there is no change in the net total TANF benefit dollars for the state.

The financial implication on recipients of creating a flat rate standard of need is significant. TANF recipients in Northern Virginia would experience decreases in the amounts of their public assistance grants, whereas, recipients in most rural counties and counties in the western region would experience gains in their TANF payments.

Clearly, if other approaches to determine a flat rate standard of need are used, like raising all localities to the Group III level, the net effect on the state, localities and recipients could be considerably larger.

CONCLUSION

House Joint Resolution 772, as approved by the 2001 General Assembly, requested the Department of Social Services, with assistance from the Department of Planning and Budget, to review the groupings of local departments of social services used in determining Temporary assistance to Needy Families (TANF) payment amounts in the Commonwealth. As a result of that request, a study was performed to determine the relevancy of the current locality groupings, given the Commonwealth' economic climate, and if some other method of determining TANF payment amounts would better serve the interest of the Commonwealth.

The Department identified four options to modify the current locality groupings.

The first option would keep the current locality grouping system and implement an appeal process whereby a local department could challenge its current grouping by petitioning the State Board of Social Services. An appeal process would address the concerns that initiated the need for HJR 772 (2001), but limit the fiscal impact of creating a new locality grouping system.

The second option would use the United States Department of Housing and Urban Development's fair market rents to determine the locality groupings. One method would modify the current locality grouping system by grouping localities according to their 2002 HUD's fair market rents. The second method would group localities using the 2002 HUD's fair market rents in a regional model.

Option three would create a Virginia locality-specific Consumer Price Index to determine the differences in the costs of living across Virginia's many localities.

The final option would establish a flat rate standard of need for all localities in the Commonwealth. Thus the same amount of assistance would be issued to all recipients with a like number of eligible persons in the household regardless of the locality in which the recipient resides.

Most of the options listed above impact the amount of public assistance a substantial number of TANF recipients would receive. Additionally, amending the current locality grouping system, or abandoning the locality grouping system entirely, would be a dramatic event that needs careful consideration. Although the primary financial impact would be on TANF recipients, the localities may be forced to supplement any reduction in public assistance with other funds and/or services. This could create an un-funded mandate on the localities.

A decision has been made by the Department and the General Assembly to pay for some eligible programs using TANF dollars instead of General Fund dollars. The Department receives $158 million in TANF block grant funds and is currently exceeding this amount in TANF spending by approximately $30 million, which is supplemented with TANF reserve funds. These reserve funds are nearing exhaustion. To balance these expenditures, TANF spending will have to be reduced.

To further complicate this situation, the Department is uncertain how much federal funding will be allocated during the TANF reauthorization. Since welfare rolls have been reduced across the country, it is possible the amount of federal funding for the TANF program will be reduced. If so, the Department will be forced to make further adverse budget modifications to non-mandated TANF programs and activities to supplement the funding shortage. This will require the Department to request General Fund dollars for programs that are now receiving TANF money and/or eliminate some programs. If a modification is made to the locality grouping system that requires more money to be spent on TANF benefits, a larger number of programs may have to be paid for out of General Fund dollars and/or eliminated.

Given the fiscal implications inherent with making any substantial changes to the current locality grouping and that TANF reauthorization is pending within the next fiscal year, careful consideration must be given to the prudence of making wholesale change to the current locality grouping system.

Appendix I

GENERAL ASSEMBLY OF VIRGINIA –2001 SESSION

HOUSE JOINT RESOLUTION NO. 772

Requesting the Department of Social Services, with assistance from the Department of Planning and Budget, to review the groupings of local social services agencies used in determining TANF payment amounts in Virginia.

Agreed to by the House of Delegates, February 24, 2001
Agreed to by the Senate, February 24, 2001

WHEREAS, the current groupings of localities, adopted in 1974, use as their primary basis for determining eligibility for public assistance services the cost of a two-bedroom apartment and utilities according to federal Department of Housing and Urban Development data, and have remained substantially unchanged; and

WHEREAS, given the dramatic demographic and economic changes that have occurred in the Commonwealth since that time, the groupings should be evaluated to reflect current conditions; and

WHEREAS, the TANF program is intended to aid needy children but benefits are relatively low, averaging about $262 per family per month; and

WHEREAS, although TANF payments were recently increased for the first time in 15 years, they have not kept pace with inflation; and

WHEREAS, welfare payments have increased by about one-third while the cost of living has tripled; and

WHEREAS, money is now available for payment increases since declining caseloads have created a TANF surplus that can be used to increase benefits; and

WHEREAS, at the end of the current fiscal year, Virginia is projected to have about $30.6 million in unspent federal TANF block grant funds, and the state has been awarded $7.9 million in additional funds as a performance bonus; and

WHEREAS, Congressional authorization for the current TANF block grant program ends in 2002 and large amounts of unspent funds may hurt the Commonwealth in its application for future allocations; and

WHEREAS, TANF is no longer a disincentive to work because welfare reform's enhanced earning disregard work requirements and time limits ensure that TANF recipients who are able to work must do so and reward work by allowing working recipients to keep more of their earned income; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, that the Department of Social Services, with assistance from the Department of Planning and Budget, be requested to review the groupings of local social services agencies used in determining TANF payment amounts in Virginia. The Department shall report its written findings, no later than October 1, 2001, to the Chairmen of the House Committee on Health, Welfare and Institutions and the Senate Committee on Rehabilitation and Social Services. The report shall include (i) the most appropriate basis for classifying local agencies into groups for purposes of the TANF programs, (ii) whether any changes to current classifications would be advisable, and (iii) the fiscal impact, if any, of such changes on state and local governments and TANF recipients.

All agencies of the Commonwealth shall provide assistance to the Department, upon request.

The conduct of this study shall be contingent upon the availability of TANF funds for such purpose.

The Department shall complete its work in time to submit its findings and recommendations by November 30, 2001, to the Governor and the 2002 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Implementation of this resolution may be redirected by the Joint Rules Committee to another state entity or legislative committee if the Committee determines that the costs of the study to be conducted by the Department of Social Services are prohibitive. The Joint Rules Committee may also withhold expenditures or delay the period for the conduct of this study.

Appendix II

HOUSE BILL NO.

Offered January, 2002

A BILL to amend and reenact § 63.1-110 of the Code of Virginia, relating to public assistance.

Patrons--

Be it enacted by the General Assembly of Virginia:

1. That § 63.1-110 of the Code of Virginia is amended and reenacted as follows:

§ 63.1-110. Determining the amount of assistance.

The State Board shall adopt rules and regulations governing the amount of assistance persons shall receive under the provisions of this law. In making such rules and regulations, the Board shall give due consideration to significant differences in living costs in various counties and cities and shall establish or approve such variations in monetary assistance standards for shelter allowance on a regional or local basis, as may be appropriate in order to achieve the highest practical degree of equity in public assistance grants. *A local department of social services may petition the Board to reconsider the differences in living costs in the county or city where that local department is located. The Board shall have the authority to approve a variation in monetary assistance standards for shelter allowance for the petitioning local department as may be appropriate to achieve the highest practical degree of equity in public assistance grants.* The rules and regulations of the Board may provide that in each grant of assistance a specific portion thereof shall be designated for shelter allowance that may be paid to a federally assisted low-rent public housing authority.

The amount of assistance which any person shall receive under the provisions of this law shall be determined in accordance with rules and regulations made by the State Board with due regard to the property and income of the person and any support he receives from other sources, including that from persons legally responsible for his support, and the average cost of providing assistance statewide. It shall be sufficient to provide assistance which, when added to all other income and support of the recipient (exclusive of that not to be taken into account as hereinafter provided), provides such person with a reasonable subsistence.

In determining the income of and support available to a person, the amount of income required to be exempted by federal statute, or if the federal statute makes such exemption permissive, then such portion thereof as may be determined by the State Board shall not be considered in determining the amount of assistance any person may receive under this law.

On or after January 1, 1989, any amounts received by a person pursuant to a settlement agreement with, or judgment in a lawsuit brought against, a manufacturer or distributor of "Agent Orange" for damages resulting from exposure to "Agent Orange" shall be disregarded in determining the amount of assistance such person may receive from state assistance programs and from federal assistance programs to the extent permitted by federal law or regulation, and such amounts shall not be subject to a lien or be available for reimbursement to the Commonwealth or any local department of welfare or social services for public assistance, notwithstanding the provisions of § 63.1-133.1.

Under conditions specified by the State Board, court-ordered support payments may be disregarded in determining the amount of assistance which any person shall receive; however, in such event, such payments, when received, shall be counted as refunds with regard to such assistance payments.

Any individual or family applying for or receiving assistance under the aid to families with dependent children, aid to families with dependent children-related medical-assistance-only, food stamp, or fuel assistance programs may have or establish one interest-bearing savings account per assistance unit not to exceed $5,000 at a financial institution for the purpose of paying for tuition, books, and incidental expenses at any elementary, secondary or career and technical school or any college or university or for making a down payment on a primary residence or for business incubation. Any funds deposited in the account, and any interest earned thereon, shall be exempt from consideration in any calculation under any specified assistance program for so long as the fund and interest remain on deposit in the account. Any amounts withdrawn from the account for the purposes stated in this section shall be exempt from consideration in any calculation under any specified assistance program. For the purposes of this section, business incubation means the initial establishment of a commercial operation which is owned by a member of the assistance unit. The net worth of any business owned by a member of the assistance unit shall be exempt from consideration in any calculation under the assistance programs specified above so long as the net worth of the business is less than $5,000. The State Board shall promulgate regulations to establish penalties for amounts withdrawn from any accounts for any other purposes than those stated in this section or other misuse of these funds.

2. The State Board of Social Services shall promulgate regulations to implement the provisions of this act within in 280 days of its enactment.