

December 15, 2003

To: The Honorable Mark R. Warner

and

The General Assembly of Virginia

The report contained herein is submitted pursuant to Item 352 E 2 of the Appropriations Act (2003) which requires the Commissioner of the Department of Social Services, in cooperation with localities to evaluate criteria for consolidating local departments of social service agencies and propose incentives for consolidation.

The Virginia Department of Social Services conducted a study that examined consolidation of local departments of social service and the criteria and models used by jurisdictions to consolidate. Consolidation of local departments of social services is the merging of two or more county and/or city departments providing benefits and social services into one agency to provide coordinated delivery of services for multiple jurisdictions. The attached study recommends proposed incentives that might encourage local departments to consolidate. The study also identifies additional areas of interest that should be explored.

Respectfully Submitted,

Maurice A. Jones
Commissioner

Report on the Study of Consolidation of Local Departments of Social Services

Table of Content

Introduction	1
Background	1
History of Voluntary Consolidation	2
Efforts to Achieve Mandated Consolidation	3
Consolidation Criteria	3
Consolidation Models	4
Consolidation Study Findings	5
Summary	8

Report on the Study of Consolidation of Local Departments of Social Services

Introduction

During recent years, questions have been raised by legislators, legislative staff, local governing bodies and staff in the executive branch of several governors about the feasibility and desirability of merging local departments of social services (local departments). There are currently 121 local departments ranging in size from seven or eight employees to several hundred employees. Questions raised have generally been related to cost savings and the potential for improved services or improved administration. The questions are often accompanied by requests for comparisons to the State Public Health and Mental Health Systems, both of which have fewer local offices. These continuing questions served as the basis for the language in Item 352 E 2 of the Appropriations Act (2003) that asked for this study and recommendations for how to address these issues.

Background

Since the passage of the Social Security Act in 1935, the Virginia Department of Social Services (VDSS) has shared responsibility with local departments of social services for providing services to those individuals and families in Virginia who are in need. Services that are provided have their roots in Federal and State law. They fall into two general areas:

- Services to eligible families in their efforts toward self-sufficiency; and
- Services to families, children, and adults in need of protection and other services associated with personal safety and care.

The Virginia social services system is state supervised and locally administered. Local departments are charged with the responsibility for the determination of eligibility and delivery of benefits and services to eligible individuals and families. The State Department is responsible for the proper operation of the overall system. Virginia is one of 13 states that use this type of system. Programs are state administered in the remainder of the states.

The *Code of Virginia* authorizes the establishment of local boards and departments of social services in each county and city in Virginia. It also makes provision for two or more counties and cities to voluntarily establish a single department to provide services in all of the local jurisdictions that are part of the merged or “consolidated” agency area.

Local departments have local boards of social services that are accountable to local governing bodies and the Commissioner of Social Services for proper administration of programs in their localities. In addition to determining eligibility for services, the local boards are responsible for personnel administration, local policies and budget. Local directors of social services are accountable to their boards as provided by state law.

The State Board of Social Services plays a key role in the Virginia System. The Board develops and adopts regulations which serve as the legal base for provision of services and programs. This Board is also responsible for approving voluntary consolidation of local departments seeking to establish districts of two or more counties and/or cities.

History of Voluntary Consolidation

Voluntary consolidation of local departments of social services is the merging of two or more county and/or city departments providing benefits and social services into one agency to provide coordinated delivery of services for multiple jurisdictions.

Voluntary consolidation first occurred after the passage of the Social Security Act in 1935 and the Virginia Public Assistance Act of 1938 which required all cities and counties to operate a social services program. These events contributed to the early consolidations of local departments. The Social Security Act mandated that States provide services and programs to individuals needing public assistance with the provision that service delivery could be administered by States and/or localities. The Commonwealth of Virginia implemented a State supervised and locally administered system in each jurisdiction.

Following the creation of VDSS, several localities merged their service delivery systems. There are three models used for voluntary consolidation: district model, contract for services model and agency specific model. These models are further explored below.

The majority of consolidations occurred in the 1930's when several towns became cities and merged their social services function with an adjoining county. Since 1995, consolidations have been effected between (i) the City of Martinsville and Henry County; (ii) the City of Harrisonburg and Rockingham County; and (iii) the City of Covington and Allegheny County. On July 1, 2003 the City of Waynesboro was added to the already existing voluntary consolidation of the County of Augusta and the City of Staunton. In sum, the localities that have voluntarily consolidated are:

- Roanoke County/City of Salem;
- Augusta County/City of Staunton/City of Waynesboro;
- Chesterfield County/City of Colonial Height;
- Bedford County/City of Bedford;
- Greensville County/City of Emporia;
- Fairfax County/City of Fairfax/City of Falls Church;
- Rockbridge County/City of Lexington/City of Buena-Vista;
- York County/City of Poquoson;
- Rockingham County/City of Harrisonburg;
- Henry County/City of Martinsville; and
- Alleghany County/City of Covington (also provides service to Clifton Forge which has reverted to Town status)

Efforts to Achieve Mandated Consolidation

The concept of mandated consolidation of local departments of social services was introduced in 1989 as a method to assist the State in reducing the budget deficit during the administration of Governor Wilder. Howard Cullum, Secretary of Health and Human Services proposed a plan to reduce costs by reducing the number of local directors and administrative support staff in smaller local departments of social services. The plan proposed that local departments might remain independent each with its' own board, but state funds would only cover one local director to act in that capacity for several local departments. Likewise, the plan projected savings from the elimination of administrative support staff to be accomplished by merging financial reporting, administrative functions, etc. If local departments did not consolidate their administrations, they would have to pay costs from local funds for those positions that were proposed in the plan for elimination.

By consolidating local departments into districts, the Secretary argued, there would be a savings to the State of \$2 million per fiscal year, and localities would save \$1 million per fiscal year. The plan was not adopted, and additional study was requested. Administrative funding to local departments was cut even though the plan itself was rejected.

In 1993, *the Joint Subcommittee of the General Assembly Studying the Need for Restructuring the Commonwealth's Local Social Services Delivery System* made two recommendations that rejected mandated consolidation while encouraging voluntary efforts for interagency collaboration and cooperation:

1. Eliminate from consideration mandated consolidation and develop incentives to encourage consolidation and cooperation; and
2. Develop a list of existing interagency cooperative efforts between local agencies and make this available to General Assembly members.

Consolidation Criteria

Voluntary consolidation has occurred primarily when towns became cities and agreed to give administrative oversight of social services programs and services to an adjoining county. In 1995 and 1997, the City of Harrisonburg and Rockingham County and the City of Martinsville and Henry County voluntarily consolidated because of unique political issues and special circumstances. Localities such as the City of Charlottesville and Albemarle County studied the issue and concluded that voluntary consolidation was not a viable strategy for their region and/or it offered no advantages over their present structure. In 1999, a joint study, commissioned by Washington County and the City of Bristol using Bearing Point, formerly known as KPMG Consulting, recommended the following questions be studied in order to determine the prudence of consolidating or not:

- Will consolidation save money?
- Will consolidation improve the quality of services?
- Will consolidation increase productivity?

The departments in Bristol and Washington County, using the above criteria as a basis for their decision, did not merge.

This document agrees with the aforementioned criteria and adds two additional questions for consideration:

- Will consolidation cost money, at least upfront?; and
- Is there a commitment from the relevant local governmental officials to work together to make the consolidation happen successfully?

Consolidation Models

Currently, there are three models of consolidation for local departments of social services.

District Model

The district model which is defined in the *Code of Virginia* § 63.1-44, states that the State Board of Social Services, with prior consent of the Governor, may establish districts consisting of two or more counties and/or cities. One board, consisting of not less than three and not more than nine members, will constitute the governance entity. Each city and county in the district will have at least one member on the board. The State Board may determine additional representation from one or more counties or cities, within the stipulated maximum, with the caseload being the principal factor in such a determination. The *Code* was amended to allow advisory boards after July 1990.

The agency resulting from the district model becomes is a legal entity, entering into contracts and employing personnel. The district is not part of any of the cities or counties that it is made up of, but rather an independent entity with representation from all cities or counties involved.

The localities that use the district model are:

- Greensville County/City of Emporia;
- York County/City of Poquoson;
- Rockbridge County/City of Lexington/City of Buena-Vista;
- Alleghany County/City of Covington;
- Rockingham County/City of Harrisonburg; and
- Henry County/City of Martinsville.

Contract for Services Model

Localities may choose to contract for services and select one jurisdiction to manage the administrative and program functions of the social services operations. The primary jurisdiction functions as the decision-making body and the fiscal agent. Funding is consolidated and the primary jurisdiction bills the other jurisdictions for their portion of direct and administrative costs. The formula used to calculate an equitable arrangement is specified in a written agreement and reviewed periodically. In addition, the written

agreement outlines the billing schedule and services provided and/or other unique arrangements agreed upon by each party to the contract.

The localities that use the contract for service model are:

- Fairfax County/City of Fairfax/City of Falls Church;
- Roanoke County/City of Salem; and
- Bedford County/City of Bedford

Agency – Specific Model

The most complicated of the models is the agency- specific model. Historically, it has been employed when factors and considerations cause the district or contract for services models to be unacceptable to localities exploring a consolidated arrangement. Usually the main reason for choosing the agency-specific model is the localities’ wish to maintain shared control over the social services agencies. Localities that use this model incorporate elements of the district and contract for services models into their agreement, and also employ additional strategies designed to meet their particular community needs. The localities that use the agency-specific model are:

- Augusta County/City of Staunton/City of Waynesboro; and
- Chesterfield County/City of Colonial Heights

Consolidation Study Findings

Mandatory Consolidation

This model, as discussed earlier, has been proposed in recent years as a way to simplify the administration of social services at the local level, while at the same time improving the quality of service that is delivered. It has also been proposed as a way to save money. Aside from a draft plan developed in 1989, there has been no significant research in this area and no empirical evidence is available to support these expectations.

Mandatory consolidation is not consistent with the intent of the *Code of Virginia* as it is now written. It is also contrary to the recommendations of the 1993 *Joint Subcommittee of the General Assembly Studying the Need for Restructuring the Commonwealth’s Local Social Services Delivery System*. The Joint Subcommittee rejected mandated consolidation while supporting incentives for voluntary cooperation and consolidation which are discussed below.

Voluntary Cooperation and Consolidation

There is support at the local level for the development of incentives to encourage or assist voluntary consolidation or other cooperative activities that would aid local departments in achieving the goals of cost savings, improved quality of services and increased productivity. The proposed incentives discussed below were derived from comments and recommendations that were made during meetings and interviews (one-on-one and telephone) with local directors serving multiple jurisdictions, local directors of social services, city and county executives and the Ad Hoc Committee on Consolidation of the League of Social Service Executives.

Proposed Incentives

Establish a Consolidation Incentive Fund. Payments of \$50,000 to \$100,000 could be guaranteed to local departments that are planning to consolidate to offset the costs of developing and implementing a plan.

Rationale: Local departments would have a guaranteed funding source that would offset up front costs of planning and implementing a consolidation.

Remove bureaucratic barriers that are disincentives to Consolidation. Local departments identify rigid state department statistical and financial reporting requirements by locality as a barrier to consolidation. The ability to report data and budgets with a combined Federal Information Processing Standards (FIPS) Code as well as retaining individual FIPS codes would provide needed flexibility and remove a barrier.

Rationale: By removing this barrier, consolidated departments would reduce the amount of time and personnel utilized to prepare separate reports and budgets. Local departments would operate more efficiently and increase productivity.

When local departments that have different shelter group designations used for computing client benefits from Temporary Assistance for Needy Families (TANF) propose to merge, allow the merging departments to select the higher or lower designation for use in the consolidated department.

Rationale: Local departments that merge into one consolidated agency would like to offer to clients the same payment level for TANF regardless of which locality they live in. Same payment levels would allow consolidated departments to be consistent in providing financial payments to the clients they serve.

Establish a one-time capital improvement grant fund to support the co-location of consolidated departments by paying for costs of moving, market based rent increases, renovation of buildings, new equipment required for larger departments, etc.

Rationale: Jurisdictions could request one-time funding for market-based rent, renovation of buildings, equipment and computers to justify relocating one or more local departments into one physical location. Jurisdictions believe funding of this nature would facilitate a positive consideration of consolidation and enhance the opportunity to produce cost savings over time at the local level.

Provide funding for the cost of legal services when localities pursue and accomplish consolidation.

Rationale: Jurisdictions that elect to establish a consolidated department would request one-time funding to facilitate the agreement. Jurisdictions believe assistance with legal costs would facilitate a positive consideration of consolidation and enhance the opportunity to produce cost savings at the local level.

Proposed Incentives Requiring Statutory Change

The following proposed incentives were developed from research and from discussions with the Commission on Local Government. In the *Code of Virginia (Counties, Cities and Towns)* the following revisions might encourage localities to consider consolidation.

Change the language in §15.2-1302 (Certain Commonwealth Distribution to Localities) to increase the time limit from 5 fiscal years to 10 fiscal years.

Rationale: This language refers to the commonly known term *Hold Harmless* whereby any State funds that were distributed to a locality, or local school board in support of a governmental program or function prior to a consolidation of such programs or functions, shall continue to be distributed to the entity or entities carrying out programs or functions after consolidation and shall not be reduced below the amounts that would have been received by each entity from the Commonwealth for the governmental program or function computed on the premise that no consolidation occurred for a period of five fiscal years following the consolidation.

Establish an amount to encourage consolidation of human service agencies pursuant to the Code of Virginia §15.2-1308 (Incentives for Certain Joint Activities by Local Governments as a Development, Planning and Implementation Grant).

Rationale: The *Code* states that the General Assembly may establish a fund to be used to encourage regional strategic planning and cooperation. Specifically, the incentive fund shall be used to encourage and reward regional strategic economic development planning and joint activities pursuant to the *Code of Virginia* § 15.2-1309 (*Eligibility Criteria for Incentive Payments*).

The funds could be used by localities for capital improvements of a building where a consolidation of human service agencies (not just social services) is planned to be co-located. The consideration for providing the funding would be consistent with the *Code* in that the incentive funds would support an economic development plan for the region.

Consolidation Study Findings – Further Consideration

In addition to the incentives identified by local directors, city and county executives and the League of Social Service Executives, there are additional areas of interest VDSS could explore.

Develop a consolidation team of VDSS program and administrative staff to assist localities in the development, planning and implementation of consolidation plans or plans for improved collaboration among separate local departments.

Develop a program support team in VDSS to help develop staffing plans for small local departments. The plans could encourage separate local departments to share program supervisors or experts as a way to improve customer service without the loss of autonomy. Fiscal incentives might be used to encourage these efforts.

Develop protocol or a guidance manual that expands upon the Bearing Point Consulting study conducted in 1999 to include VDSS policies and procedures, identification of key staff at VDSS to assist local department and include guidance on federal and State regulations.

When local departments consolidate, require all employees to be placed under the same personnel and classification system. In consolidated departments where separate personnel and classification systems exist, there are complaints of employees being paid at different levels despite doing the same job. Incentive funds may be needed to facilitate change.

Recommendations for Future Studies

The recommendation for future studies is an extension of the *Study of Consolidation* and is an effort to continue to provide comprehensive supervision to local departments. The studies focus on the anticipated changes in leadership with the retirement of personnel at the State and local departments and on-going efforts by VDSS to partner with local departments as they continue to work cooperatively and efficiently.

Conduct a study of local departments in designated geographic areas to determine if a combination of incentives, State department support and regional cooperation would facilitate consolidation.

Examine the creation of departments of human services in localities across Virginia. Departments of human services can bring together local agencies with similar and overlapping missions or target populations under a single administrative umbrella. The types of related functions might include social services, health, employment and training, mental health, and school health. Departments of Human Services currently exist in large urban areas such as Fairfax, Arlington, Alexandria, Newport News and Richmond. This type of arrangement is able to capitalize on local cost allocation by drawing down federal funds to maximize the delivery of services.

Examine models for consolidation to develop a comprehensive method for localities to use when considering consolidation. Each model (district, contract for services and agency-specific) has its own features that may be attractive to localities. The district model is the only one that is specifically authorized in the Code of Virginia. The authorization of other models in the Code should be examined to determine if it would serve as a catalyst for additional voluntary efforts among local departments.

Summary

This study identifies key questions localities must answer to evaluate whether they should pursue consolidation. Further, the study identifies incentives the state may offer localities interested in consolidating their social services functions.