COMMONWEALTH of VIRGINIA

DEPARTMENT OF SOCIAL SERVICES

Office of the Commissioner

Martin D. Brown
COMMISSIONER

October 1, 2012

Honorable Walter A. Stosch
Chairman, Senate Finance Committee
General Assembly Building, Room 621
Capital Square
Richmond, Virginia 23219

Dear Senator Stosch:

The 2009 General Assembly passed Senate Bill 1045 changing the eligibility rules for receipt of Diversionary Assistance under the Temporary Assistance for Needy Families program from once every 60 months to once every 12 months. An enactment clause contained in the legislation requires:

"That the Department of Social Services shall report to the chairman of the Senate Finance and the House Appropriations committee no later than October 1, 2012 on the savings achieved through the use of diversionary assistance in Fiscal Year 2012 through Fiscal Year 2012."

I am pleased to submit the required report for your review and consideration. Please feel free to contact me if you have questions or I can provide additional information.

Sincerely,

Martin D. Brown

MDB:ts

Attachment

801 East Main Street • Richmond, VA 23219-2901
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Martin D. Brown
COMMISSIONER

October 1, 2012

Honorable Lacey E. Putney
Chairman, House Appropriations Committee
General Assembly Building, Room 947
Capital Square
Richmond, Virginia 23219

Dear Delegate Putney:

The 2009 General Assembly passed Senate Bill 1045 changing the eligibility rules for receipt of Diversionary Assistance under the Temporary Assistance for Needy Families program from once every 60 months to once every 12 months. An enactment clause contained in the legislation requires:

"*That the Department of Social Services shall report to the chairman of the Senate Finance and the House Appropriations committee no later than October 1, 2012 on the savings achieved through the use of diversionary assistance in Fiscal Year 2012 through Fiscal Year 2012.*"

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Estimating the Fiscal Impact of the 2009 State Policy Change Regarding TANF Diversionary Assistance

Context: Diversionary assistance (DA) provides eligible families or households with short-term assistance to resolve temporary emergencies related to basic needs such as food, shelter, medical expenses, child care, and costs associated with getting or keeping employment (e.g., transportation costs). DA is intended to offer an alternative to receiving longer term assistance, i.e., enrolling in Temporary Assistance to Needy Families (TANF). By accepting DA, the household waives the right to receive ongoing assistance (TANF) for up to 160 days. Compared to TANF, a small proportion of households in Virginia receive DA. In SFY 2011, 60,110 households received TANF[1] at a total cost of $116.9 million.[2] In comparison, approximately 3,540 households – nearly 6 percent of the number that received TANF -- received DA. The total costs associated with DA for SFY 2011 was $4.2 million, which is four percent of the total costs associated with TANF.[2]

In SFY 2009, the Virginia General Assembly passed SB 1045[3] that allowed the Virginia Department of Social Services (VDSS) to revise the policy of limiting the receipt of DA from one payment *every 60-month period* to one payment *every 12-month period.* The change in policy went into effect on July 1, 2009. The intent was to increase the opportunity for families to receive a lump-sum benefit rather than enroll in ongoing TANF assistance. The legislation required that VDSS report on the cost savings achieved by the policy change in SFY 2010 through SFY 2012.

According to the fiscal impact statement, the policy change was expected to reduce costs by decreasing the number of families who receive ongoing TANF assistance. The policy change was expected to make families more likely to apply for repeated DA and less likely to apply for TANF assistance.

Objective: To estimate the cost increase or decrease due to the change in DA policy that allowed TANF applicants to receive DA once every 12 months rather than once every 60 months.

Data Sources: Client level data from monthly TANF extracts from ADAPT,[4] which are received by the VDSS Office of Research and Planning, and financial data from the F10.2 Expenditure

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[1] Source: VDSS, Data Warehouse, ADAPT (Application Benefit Delivery Automation Project) System, SFY Locality Program Cube. This is an unduplicated count of households active on TANF at some point during the year.

[2] Source: VDSS, *2012 Annual Statistical Repor*t (http://www.dss.virginia.gov/files/about/reports/agency_wide/annual_statistical/pdf_versions/2012.pdf).

[3] For the full text of the bill, go to Virginia's Legislative Information System (LIS): http://lis.virginia.gov/cgi-bin/legp604.exe?091+ful+CHAP0547.

[4] The monthly TANF data extract is a point-in-time report, which is produced at the beginning of each month. The data captures the cases (households) that have a status of being eligible to receive TANF for that month. The limitation is that the eligibility status of any particular case can change during the month such that the household recipient no longer needs or qualifies for TANF.

and Case Data Report. The VDSS compiled monthly TANF extract datasets and restructured the data into case (household unit) level information to create the final dataset for analysis. Monthly DA extract data come from the same data source.

Methods: The first step is to examine trends in the monthly number of cases (households) that received DA from 2006 through 2012, to see whether the policy change was associated with an increase in the number of diversion cases.

The second step, which is the primary analysis, is to compare the use of DA and TANF for two cohorts of households: those that received DA before the July 2009 policy change, and those that received DA after the policy change. Specifically, the pre-policy cohort are households that received DA benefits between July 1, 2006 and June 30, 2007 (approximately three years prior to the policy change), and the post-policy cohort are households that received DA benefits from July 1, 2009 through June 30, 2010 (immediately after the policy became effective).

Each cohort is followed for *24 consecutive months* after first receipt of DA benefits to determine the following: 1) the average number of times of any subsequent receipt of DA, 2) the proportion of households that received ongoing TANF, and 3) the average total number of months of TANF benefits.

The third step is to estimate the dollar value of benefits received for both DA and TANF. The difference between the pre-policy cohort and the post-policy cohort in the total value of DA and TANF benefits received is the estimated cost increase or decrease due to the policy change. Because case-level data on TANF benefit payments are not readily available, VDSS uses the average monthly benefits received by all households (assistance units). Similarly, VDSS uses the average annual DA payment as reported in the VDSS Annual Statistical Report.

In the final step, the aggregate costs are calculated as the average total TANF plus DA benefit amount per household multiplied by the unduplicated number of households receiving DA in a given year. The costs in each year following the policy change (2010 through 2012) are compared to the costs in the baseline year 2009.

Caveats: (1) This approach assumes that the two cohorts are comparable except for the policy change.

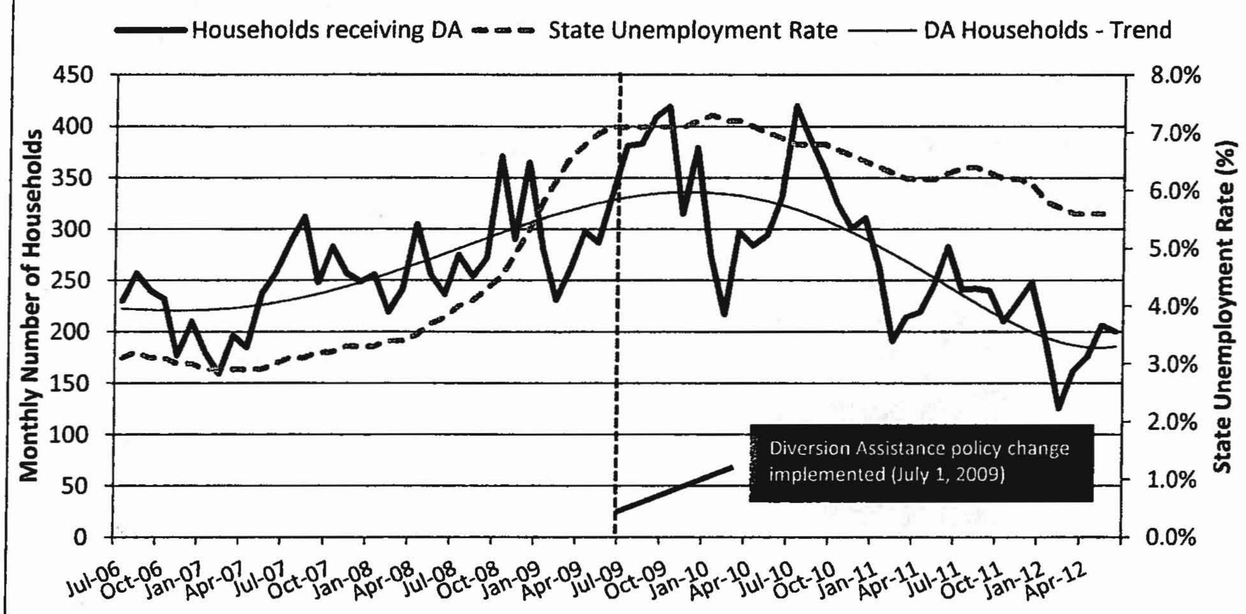
(2) This approach ignores the effect on administrative costs and the costs of VIEW participation.

(3) The aggregate fiscal impact calculation assumes that the change in the number of DA cases since SFY 2009 is entirely due to the policy change. The sharp decline in DA cases in SFY 2012, however, is likely not entirely due to the policy change.

Key Findings: **1) The total number of households receiving DA appears to track the unemployment rate, increasing from 2007 through early 2010 and decreasing since then.**

Between July 1, 2006 and June 30, 2012, 19,206 households received DA payments. The monthly number of households receiving DA started to increase in early 2007, continued rising through 2008 and 2009, and began declining in mid-2010.[5] These trends roughly correlate with changes in the state unemployment rates.[6] Figure 1 suggests that the policy change did not induce more households to apply for DA in the long run.

Figure 1 – Monthly Number of Households Receiving Diversionary Assistance and Monthly State Unemployment Rate, Virginia, SFY 2007-2012



Sources: VDSS, Data Warehouse, ADAPT Applications Analysis cube (number of DA households); LAUS Unit and Bureau of Labor Statistics (state unemployment rates, which are seasonally adjusted).

Averaged over three years, the annual number of households receiving DA increased from 3,077 in SFY 2007-2009 to 3,325 in SFY 2010-2012.

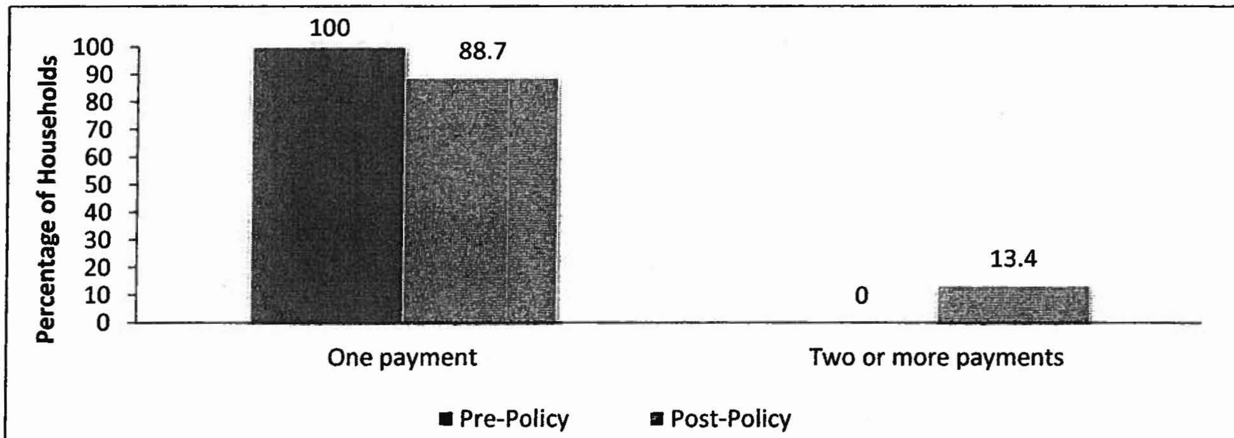
[5] VDSS observed some seasonal variation, with the fewest number of DA payments received in February and the greatest number of payments occurring in the summer months.
[6] The time period for the study coincides with the U.S. economy entering a recession in December 2007. The economic recession continued through June 2010. Economic conditions started improving in late 2011. See http://www.nber.org/cycles/cyclesmain.html for detail on specific quarters.

2) The policy change increased the number of families receiving DA more than once, as expected.

For the main analysis, two cohorts – households (cases) that received DA benefits between July 1, 2006 and June 30, 2007 (pre-policy cohort) and households that received DA benefits between July 1, 2009 and June 30, 2010 (post-policy cohort) – were followed for 24 consecutive months after initially receiving DA benefits. The pre-policy cohort was comprised of 2,477 households, and the post-policy cohort was comprised of 3,944 households.

No household (0%) in the pre-policy cohort received more than one DA payment in the 24-month follow-up period, consistent with the required 60-month waiting period. After the policy change went into effect, 13.4 percent (n=527) of households received multiple DA payments in the 24-month follow-up period (Figure 2). The vast majority (87%) of households in the post-policy cohort received DA only once.

Figure 2 – Percentage of Households Receiving One vs. Multiple DA Payments Within the 24-Month Follow-up Period*: Pre-Policy and Post-Policy



Source: VDSS, ADAPT, Case-Level Monthly TANF Extract Files. * DA payments made within a 24-month period after initial DA payment.

3) The policy change slightly decreased the number of families receiving ongoing TANF, also as expected. Families receiving TANF were on it for a longer period of time, which was not expected, although the difference is small.

In the pre-policy cohort, 29.4 percent (n=727) of households <u>subsequently</u> received ongoing TANF during the 24-month follow-up period. In the post-policy cohort, 27 percent (n=1,065) of households subsequently received ongoing TANF within 24 months.[7] This suggests that, as intended, the policy change reduced the likelihood that households would subsequently go on TANF within a two-year period.

Examining households that received TANF during the 24-month follow-up period, the pre-policy cohort received ongoing TANF for an average total of 7.2 months. The post-policy cohort received ongoing TANF for an average total of 7.8 months during the 24-month period.[8] The difference in mean length of time is small but statistically significant. This difference may be due more to the recession than the policy change, because there is no reason to expect that the policy change would increase length of time on TANF.

4) In the short run, the policy change increased estimated total costs *per household*.

The *average total DA payment per household* is the average DA payment amount[9] multiplied by the average number of DA payments per household in a 24-month period. For the pre-policy cohort, the average total DA payment per household was $1,171 ($1,171 x 1.0 payments). For the post-policy cohort, the average total DA payment per household was $1,345 ($1,186 x 1.134 payments), approximately $174 more per household (Table 1). The higher amount is due mainly to the (expected) increase in repeat use of diversion.

The *average total TANF benefit per household* is the proportion of each cohort that received TANF benefits multiplied by the average number of months on TANF in a 24-month period and the average monthly TANF payment per case[7]. For the pre-policy cohort, the average total TANF benefit per household was $587 (29.4% x 7.2 months x $277). For the post-policy cohort, the average total TANF benefit was $571 (27% x 7.8 months x $271), approximately $16 less per household (Table 1).

The average combined DA and TANF benefit per household was $1,758 for the pre-policy cohort and $1,916 for the post-policy cohort, *for an increase of $158 per household*, after the policy was implemented (Table 1). The increase in diversion payments due to the policy change was not fully offset by the decrease in TANF benefits, so the policy change increased the total benefit per DA household.

[7] Households that received ongoing TANF only within the first two (0-2) months after the DA payment date were not counted as receiving ongoing TANF during the 24-month follow-up period in this study. It is questionable if these were valid cases of households receiving diversionary assistance or TANF since this would not be allowable under TANF and diversionary assistance policies.

[8] The total number was based only on the months on TANF during the 24-month follow-up period, excluding months within one to two months after the payment date – see footnote 6 above. Also excluded were months that followed after the 24-month cutoff date.

[9] See VDSS "2012 Annual Statistical Report" (http://www.dss.virginia.gov/files/about/reports/agency_wide/annual_statistical/pdf_versions/2012.pdf). The average DA payment per case for each state fiscal year can be found on page 6 of the report; the average monthly TANF payment per case is on page 3.

Table 1 – Average Diversionary Assistance (DA) and TANF Benefit Payment Amounts ($) per Household: Pre- versus Post-Policy

Cohort	Average Number of DA Payments in 24 months per Household (A)	Average DA Payment Amount ($) per Household (B)*	Average Total DA Payment ($) per Household (C=A x B) †	Percentage of DA Households Receiving TANF in 24 months (D)	Average Number of Months on TANF (E)	Average Monthly TANF Benefit ($) per Household (F)*	Average Total TANF Benefit ($) per DA Household (G=D x E x F) †	Average Total Benefit ($) per DA Household (C + G) †
Pre-Policy	1.00	$1,171	**$1,171**	29.4%	7.2	$277	**$587**	**$1,758**
Post-Policy	1.134	$1,186	**$1,345**	27.0%	7.8	$271	**$571**	**$1,916**
Change: Pre- vs. Post-Policy			**$174**				**-$16**	**+$158**
% Change: Pre- vs. Post-Policy			**+15%**				**-3%**	**+9%**

* Average annual DA and monthly TANF payments per household (case) for SFY 2007 and 2010 were used in this calculation (Source: VDSS, Annual Statistical Report, 2012).

† The average total DA payment, total TANF benefit, and total benefit (DA & TANF combined) amount per household were rounded up to the nearest whole dollar ($).

5) Despite the increase in the average total benefit *per household*, estimated total benefit spending declined by approximately $785,000 over the three-year period (SFY 2010 through SFY 2012), or about $262,000 per year. The cost reduction is primarily due to a reduction in the total number of household receiving DA.

Aggregate costs are calculated as the average total TANF plus DA benefit amount per household (from Table 1) multiplied by the unduplicated number of households receiving DA. In SFY 2009, the estimated total benefit costs were approximately $6.1 million, which serves as the baseline. Using a similar formula (except the estimated average total benefit per household is $1916 for each year between SFY 2010 and SFY 2012), the yearly total (TANF and DA combined) benefit costs for SFY 2010 through SFY 2012 were calculated. The estimated total benefit costs for each year are shown in Table 2.

Compared to the base year SFY 2009, SFY 2010 had a net increase in the total number of DA cases (+479 cases) and an increase in the estimated total benefit costs (by $1.46 million). However, there were net decreases in the numbers of households receiving DA and in total benefit costs in both SFY 2011 and SFY 2012, as shown in Table 2.

Over the three-year period following the policy change (SFY 2010 through SFY 2012), the aggregate fiscal impact was a cost savings of approximately $785,000, *or about $262,000 per year.* This represents a four percent reduction in costs, compared to the base year 2009.

The cost reduction was primarily driven by the substantial decrease in the number of households receiving DA in SFY 2012. It is unclear why use of DA declined dramatically in SFY 2012.

The estimated cost reduction is similar to the cost savings projected by JLARC prior to implementation of the policy, although JLARC used a different methodology and different assumptions.[10]

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[10] See the JLARC (Joint Legislative Audit and Review Commission) Fiscal Impact Review for SB 1045: http://leg1.state.va.us/cgi-bin/legp504.exe?091+oth+SB1045J110+PDF.

Table 2 – Total Benefit Costs per SFY and Aggregate Impact for SFY 2010 through 2012

SFY	Number of Households Receiving DA (A)*	Average Total Benefit ($) per DA Household (B)**	Total Benefit Costs ($) (A x B) †
2009 (Base Year)	3,465	$1,758	**$ 6,091,470**
2010	3,944	$1,916	$ 7,556,704
2011	3,167	$1,916	$ 6,067,972
2012	2,017	$1,916	$ 3,864,572

	Change in Number of Households Receiving DA	Percent Change from SFY 2009	Change in Total Benefit Costs ($)	Percent Change from SFY 2009
2009 versus:				
2010	+479	14%	+$1,465,234	+24%
2011	-298	-9%	-$23,498	0%
2012	-1,448	-42%	-$2,226,898	-37%
Aggregate Impact: SFY 2010 thru 2012	-1,267		-$785,162	
Annualized Impact: SFY 2010 thru 2012	**-422**		**-$261,721**	

Source: Number of households receiving DA was obtained from ADAPT through the VDSS Data Warehouse.

* Unduplicated count of households receiving DA between 2010 and 2012. For example, if a household received a diversion payment in 2010 and again in 2011, the household would be counted once for 2010, but not included in the count for 2011, because the cost already takes into account repeat use of diversion.

** The average total (DA and TANF combined) benefit amounts per household for SFY 2011 and SFY 2012 were assumed to be the same as for SFY 2010.

† The average total DA payment, total TANF benefit, and total benefit (DA & TANF combined) amount per household were rounded up to the nearest whole dollar ($).