

Vocational Rehabilitation Funding Formula

Presentation to the
Disability Policy Research Forum
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Our Requesters

- Rep. George Miller, Chair
Rep. John Kline, Ranking Member
House Committee on Education and Labor
- Rep. Howard McKeon

The Current Funding Formula

Allotment = FY1978 Allotment

$$\begin{aligned}
 &+ \frac{(\text{Population} \times \text{Allotment percentage}^2)}{\sum (\text{Population} \times \text{Allotment percentage}^2)} \times \frac{\text{Excess amount}}{2} \\
 &+ \frac{(\text{Population} \times \text{Allotment percentage})}{\sum (\text{Population} \times \text{Allotment percentage})} \times \frac{\text{Excess amount}}{2}
 \end{aligned}$$

where:

$$\text{Excess amount} = \text{FY Appropriation} - \sum \text{FY1978 Allotments}$$

$$\text{Allotment percentage} = 1 - 0.50 \times \frac{\text{State per capita income}}{\text{U.S. per capita income}}$$

- The minimum allotment is 1/3 of 1% of total VR funds appropriated (\$9.5 million minimum in FY2008).
- The allotment percentage cannot be less than 33 1/3% or higher than 75%.

Key Components

FY1978 Allotment

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 & + \frac{(\text{Population} \times \text{Allotment percentage}^2)}{\sum (\text{Population} \times \text{Allotment percentage}^2)} \times \frac{\text{Excess amount}}{2} \\
 & + \frac{(\text{Population} \times \text{Allotment percentage})}{\sum (\text{Population} \times \text{Allotment percentage})} \times \frac{\text{Excess amount}}{2}
 \end{aligned}$$

Per Capita Income Factor Squared

Per Capita Income

where:

State Population

$$\text{Excess amount} = \text{FY Appropriation} - \sum \text{FY1978 Allotments}$$

$$\text{Allotment percentage} = 1 - 0.50 \times \frac{\text{State per capita income}}{\text{U.S. per capita income}}$$

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Research Questions

1. To what extent does the current Vocational Rehabilitation (VR) funding formula meet generally accepted equity standards?
2. What are options for revising the formula to better meet these standards?

Equity Standards for Funding Formulas

- **Beneficiary equity:** Federal funds are distributed so that each state, with their federal funds, can provide the same level of services to each person in need.
 - Requires measures of need population & cost of providing services.
- **Taxpayer equity:** Federal funds are distributed so that each state, with both state and federal funds, can provide the same level of services to each person in need. Also, states contribute about the same proportion of their resources to the program.
 - Requires measures of need population, cost of providing services, & state resources.

Scope & Methodology

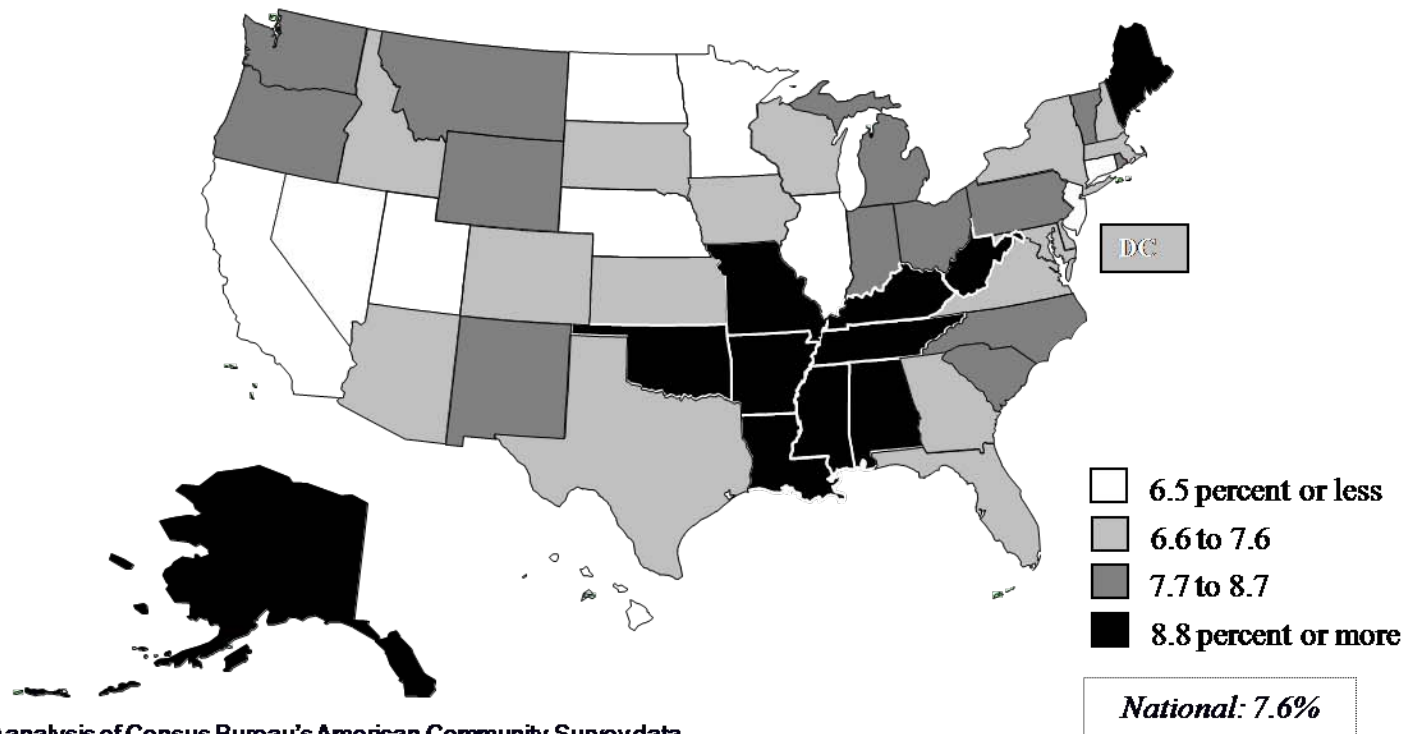
- Analyzed numerous data series
 - Data sources: Census Bureau, Bureau of Labor Statistics, Department of Housing and Urban Development, Department of the Treasury, Department of Education
 - 3 experts on disability data reviewed portions of our work (Andrew Houtenville, Mitch LaPlante, David Stapleton)
- Conducted survey of 80 VR agencies (93% responded)
- Interviewed disability experts, advocacy groups, officials at 11 VR agencies in 9 states, and representatives of state rehabilitation councils in 5 states

The Current VR Funding Formula Falls Short of Meeting Equity Standards

- Beneficiary equity is not met.
 - The formula's measure of need population is imprecise.
 - Lacks a measure of cost of services.
- Taxpayer equity is not met.
 - The formula's measure of state resources is not comprehensive.
- In FY2008, 27 percent of VR funds were distributed based on states' fiscal year 1978 allotments.

General Population is an Imprecise Measure of States' Need Populations

Percentage of Each State's Population in Working Age with a Disability, 2007



Source: GAO analysis of Census Bureau's American Community Survey data

Example of Two States with Similar Populations but Different Working-Age Disability Rates, 2007

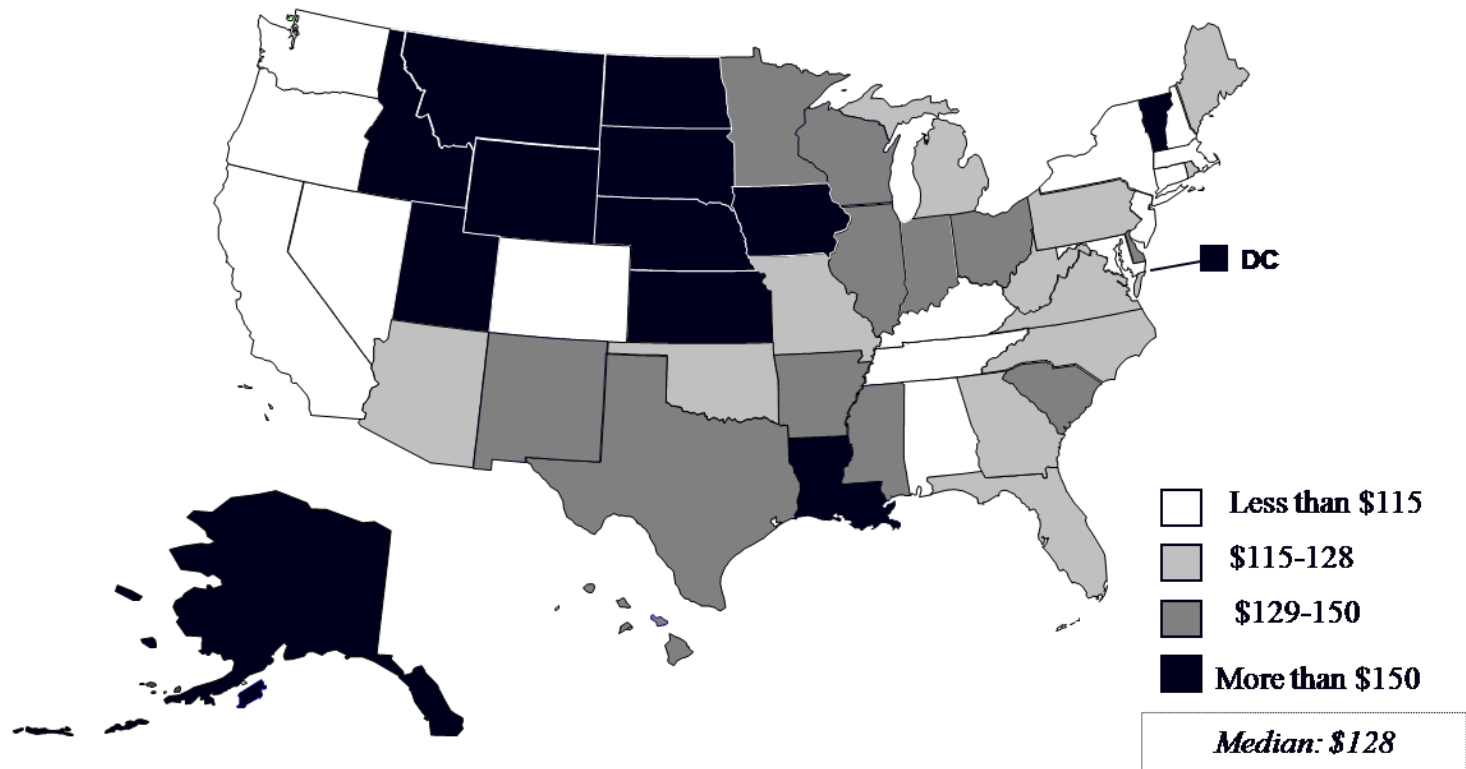
State	Total Population	Working-Age Disability Population	Percent of Population of Working Age with a Disability
New Mexico	2.0 million	170,555	8.7%
West Virginia	1.8 million	231,218	12.8%

Source: GAO analysis of Census Bureau's American Community Survey data

The Formula Does Not Account for State Differences in the Cost of Services

- We estimated costs based on average state wages and rents
 - Bureau of Labor Statistics (BLS) data on wages (Quarterly Census of Employment and Wages – Education, Healthcare, and Social Assistance Industry Sector)
 - Housing and Urban Development (HUD) data on rents (Fair Market Rents)
 - Costs vary among states:
 - Idaho's costs: estimated to be 13% below the national average
 - Massachusetts: estimated to be 13% above the national average
 - By not taking into account cost differences, VR allocations purchase fewer services in states that have higher costs.
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Estimated State VR Allotments Per Working-Age Person with a Disability, Cost-Adjusted, Based on FY2008 Funding



Source: GAO analysis of data from Education, Census Bureau, BLS, HUD, and responses to GAO survey.

The Formula Does Not Capture Certain Taxable Resources

- The formula's measure of state resources is limited to per capita income. It does not capture:
 - Certain types of corporate income
 - Certain types of income produced within a state that is received by out-of-state residents
- The Treasury Department's Total Taxable Resources is a more comprehensive measure.
- Per capita income particularly understates the resources of energy-exporting states (Alaska, Wyoming) and states with numerous corporate headquarters (Delaware).

State VR Agency Opinions on the Funding Formula

- 62% expressed the opinion that the formula is appropriate.
- Opinions on the different elements of the formula varied.
- Some state officials felt that the current formula does not provide them with adequate funds.
- Among states with below median allotments per working-age person with a disability, 72% had a VR agency under an order of selection in FY2008, compared to 52% of states with above median allotments.

Options for Introducing Greater Equity for Taxpayers or Beneficiaries

- Partial Beneficiary Equity Formula
 - Need population
- Full Beneficiary Equity Formula
 - Need population, cost of services
- Taxpayer Equity Formula
 - Need population, cost of services, state resources

Redistribution of Funds under Three Formula Options

	Partial Beneficiary Equity	Full Beneficiary Equity	Taxpayer Equity
Percentage of Total Funds Redistributed	3.8%	5.6%	5.0%
States Receiving More Funds	23	19	23
States Receiving Less Funds	22	26	22
States with No Change*	6	6	6

Source: GAO analysis of data from Education on VR grants in FY2008, Census Bureau's 2006 and 2007 American Community Survey, Treasury's Total Taxable Resources data, BLS' Quarterly Census of Employment and Wages, HUD's Fair Market Rents data, and responses to GAO survey.

* Our formula options would retain the same minimum allotment that the current formula provides, 1/3 of 1% of the total appropriation for the VR program. In FY2008, 6 states received the minimum allotment.

Survey Responses on Options for Revising the Formula

- Our survey asked state agencies to provide their opinions on three approaches generally based upon the equity standards.
- Most state agencies expressed reservations about options roughly based on partial beneficiary and taxpayer equity standards.
- Opinions were split on an option roughly based on full beneficiary equity:
 - 45% expressed support
 - 47% expressed disapproval

Options for Phasing in Changes to Minimize Disruption to State Programs

- Phase-in Period: Combination of old and new formulas for a set period of time, with a gradual increase in funding based on the new formula each year.
- Hold Harmless Provision: Set limits on the amount of funds a state can lose.

Our Report

***GAO, Vocational Rehabilitation Funding Formula:
Options for Improving Equity in State Grants and
Considerations for Performance Incentives,
GAO-09-798 (Washington, D.C.: Sept. 30, 2009)***