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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

JUNE 21, 1984

GENERAL GOVERNMENT  
DIVISION

B-214417

The Honorable Lloyd M. Bentsen  
United States Senate

The Honorable William Proxmire  
United States Senate

The Honorable Orrin G. Hatch  
United States Senate

The Honorable John G. Tower  
United States Senate

Subject: Improvements in the Alcohol, Drug Abuse and  
Mental Health Block Grant Distribution Formula  
Can Be Made Both Now and in the Future  
(GAO/GGD-84-88)

Your letter dated May 3, 1984, requested our assistance in evaluating the funding formula for the Alcohol, Drug Abuse and Mental Health (ADAMH) block grant program established by Public Law 97-35, the Omnibus Budget Reconciliation Act of 1981. You listed three formula factors for our consideration.

1. Factors related to state need.
2. Factors related to states' contributions to these programs.
3. The cost effectiveness of programs operated by states and localities.

In discussions with your representatives we agreed to provide an initial response based on our existing work to date. Our office has issued several reports relating to the issues raised in your letter, including a recently issued evaluation of the ADAMH block grant program (GAO/HRD-84-52, June 6, 1984). In addition, we have been working with the Subcommittee on Health and the Environment, House Committee on Energy and Commerce, to develop a new allocation formula for this program. The result of this work is embodied in the formula provisions of H.R. 5603, which was passed by the House of Representatives on June 11, 1984.

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CURRENT FUNDING FORMULA CONTAINS  
SIGNIFICANT FUNDING INEQUITIES

The Reconciliation Act consolidated 10 categorical programs into the ADAMH block grant and allocated funds to states in proportion to the state-by-state distribution of federal aid that existed under the prior categorical programs in fiscal year 1981. We identified two reasons why this method of allocating funds could lead to an inequitable distribution of block grant funds among the states. First, the fiscal year 1981 distribution of funding under the categorical programs may not reflect relative differences in state need for federal funding. For example, states which made the earliest and most substantial commitments to developing community services networks under the Community Mental Health Centers Act would have largely used up their funding eligibility by 1981, while states which started their programs much later were at relatively high funding levels in fiscal year 1981. Thus, basing state allocations on existing funding patterns reflected states in different stages of a dynamic historical funding pattern rather than the relative needs of their populations.

The second source of inequity is that the current formula does not respond to demographic shifts in population over time. For example, between 1980 and 1983 Florida's net migration as a percentage of 1980 population was +8.5 percent, Texas +6.5 percent, and Utah +3.4 percent compared to -4.4 percent in Michigan, -2.4 percent in Indiana and -1.4 percent in Wisconsin. Thus, as population shifts and the attendant incidence of substance abuse and mental health problems change, federal block grant funding would become increasingly mistargeted if the current formula is retained.

A September 1982 report by the Department of Health and Human Services (HHS) presented options for a more equitable ADAMH funding formula suggesting that inequities in the existing formula are substantial. The HHS report presented three alternative formulas based on various combinations of population and per capita income. While these two factors are not perfect need indicators, HHS concluded that population and per capita income were highly correlated with the need for ADAMH services. All three formula options would rather dramatically shift program funding, each in a similar fashion. This suggests that the 1981 funding distribution is not closely related to the need for ADAMH services.

FORMULA IMPROVEMENTS CAN BE MADE  
BOTH NOW AND LATER

Legislation passed by the Senate in April of this year would reauthorize the ADAMH block grant for fiscal years 1985

through 1987. The Senate bill made a minor equity adjustment to the formula and called for an additional study by a nongovernment entity under contract with HHS to determine whether a more equitable formula can be designed. For the reasons cited above, further improvements in the ADAMH funding formula can be made both in the short and in the longer term. In the short term any one of the three population and per capita income based formulas presented in the HHS report would better reflect program need than the current formula. The House has incorporated one of the HHS formulas into H.R. 5603, which also reauthorizes the program for 3 additional years. To insure that no state suffers a decrease in funding as a result of the formula change, the new formula would be phased in for future appropriations which exceed fiscal year 1984 funding.

While the use of population and per capita income is more equitable than the existing formula for purposes of targeting funds on the basis of need, better indicators of the incidence of substance abuse and mental health needs could probably be developed. However, such indicators are not readily available from standard sources. Thus, the additional study mandated by the Senate bill could be designed to produce more accurate measures of the incidence of substance abuse and mental health needs, possibly taking into consideration such factors as age, sex, race, income, and location. To the extent that this research yields improved measures of potential program recipients, these refinements could be incorporated into the formula at a later date.

COMPENSATING GRANTEEES FOR COST EFFECTIVENESS  
POSES DIFFICULT METHODOLOGICAL PROBLEMS

On the issue of cost effectiveness, a wide variety of factors affect the unit cost of providing services. Some factors, such as management effectiveness, are subject to control by service providers, while others, such as the degree to which clients are susceptible to rehabilitation, are largely beyond their influence. At a conceptual level it may be desirable to reward service providers that make effective use of their resources and provide services at lower unit costs, and to compensate providers which must operate with high unit costs resulting from factors beyond their control.

Rewarding providers with efficient, cost-effective programs and compensating those which must operate in high cost environments raise a number of difficult issues. We addressed the cost differential issue in appendix VI of our report How Revenue Sharing Formulas Distribute Aid: Urban-Rural Implications (PAD-80-23, April 22, 1980). In summary, a considerable amount of additional research would have to be undertaken to determine if a sound methodology that reasonably identifies the source of

unit cost differences, suitable for use in funding formulas, can be devised.

ADDING A MATCHING/MAINTENANCE OF EFFORT  
PROVISION IS AN IMPORTANT POLICY CHOICE

Your letter also expressed concern that alterations in state contributions to ADAMH programs are not reflected in the current formula. While this is true, current law does require that states use their allotments to supplement and increase the level of state, local, and other nonfederal funds as a condition for receiving their grant allotments. GAO's report Proposed Changes in Federal Matching and Maintenance of Effort Requirements For State and Local Governments (GGD-81-7, December 23, 1980) recommended that nonsupplant requirements not be used due to the problems involved in their enforcement. As an alternative to a nonsupplant provision our report recommended using a maintenance of effort provision as a means of insuring that states maintain their support for the aided programs.

While a maintenance of effort provision can help prevent the substitution of federal for state funds, it does not reward those states which devote relatively more state resources to the aided programs. If this is desired, it could be achieved in one of two ways. First, the amount of state resources devoted to the program could be included directly into the allocation formula. This approach is an implicit matching provision in that as a state provides more state resources to the program, its federal allotment would increase. This approach would place states in competition with each other for federal funds since states spending more would receive higher allotments at the expense of low spending states, if the total amount of federal funds appropriated were fixed.

The second approach would be an explicit matching requirement. Under this approach states would be required to spend a specified amount of nonfederal funds for each federal dollar received. This approach does not put states in competition with each other because their allotments, determined by the allocation formula, would not depend on state spending. However, the proportion of their allotments actually received would depend on how much they actually spend.

Whether to impose a matching requirement in either form is a policy decision to be made by the Congress. In the above cited report we concluded that such a provision should be used sparingly and only where there is a clearly articulated federal interest to

--stimulate additional state and local resources,

- encourage top state and local officials to deliberate the merits of participating in the program,
- promote grantee oversight of program management, or
- reflect the proportionate benefits grantees derive from the program.

As shown by our recent work on the ADAMH block grant, states generally commit substantially more resources to the ADAMH program areas than the federal government, and 12 of the 13 states we visited had increased their resource commitment over the 1981 to 1983 period. Overall, we also found that the involvement of Governors and state legislatures had increased during the same period. Also, because ADAMH is a block grant, we believe one additional factor should be considered. Among the purposes in moving to the block grant approach were to provide more discretion to states and to reduce reporting requirements associated with administering the program. Adding a matching/maintenance of effort provision would create a new reporting requirement and reduce state discretion in allocating state funds.

If the Congress decides that one or more of the above rationales is sufficiently important to warrant the imposition of matching/maintenance of effort requirements, GAO could assist the Congress in developing such provisions.

As arranged with your representatives, we are sending copies of this report to the Director, Office of Management and Budget; and the Secretary of the Department of Health and Human Services. Copies will also be available to other interested parties who request them. Please let us know if we can be of further assistance.

*W. J. Anderson*

William J. Anderson  
Director