United States General Accounting Office 144218

GAO Testimony

144218

For Release
on Delivery
Expected at
9:45 a.m. EDT
Tuesday
June 25, 1991

SUBSTANCE ABUSE FUNDING:

High Urban Weight Not Justified by Urban-Rural Differences in Need

Statement of
Lawrence H. Thompson,
Assistant Comptroller General
Human Resources Programs

Before the
Senate Committee on Labor and
Human Resources

GAO/T-HRD-91-38

GAO Form 160 (12/87)

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss how $1.3 billion in federal funds are distributed under the Alcohol, Drug Abuse and Mental Health block grant program. We were asked to (1) review the apportionment formula used to distribute block grant funds, (2) comment on how well the current formula targets funds to states in relation to their alcohol, drug, and mental health needs, and (3) provide our views on an alternative formula being considered by the Committee.[1] Briefly, our analysis shows that the high weight now given urban population produces the following results:

-- Urban states receive higher per capita funding than can be justified by studies of urban-rural differences in drug abuse or the cost of providing services.

-- Funding is not systematically targeted to low-income states, as was intended by the 1988 legislation.

-- Although a high weight on urban population may serve as a proxy for the cost of providing services, it would be better to introduce a cost factor directly into the formula.

---

[1]The provisions are contained in S. 1306.

The apportionment formula proposed in S. 1306 would distribute block grant funds so that they more closely reflect high concentrations of high-risk people, the cost of providing services and state taxpayers' ability to fund service needs.

Before discussing these results, Mr. Chairman, I will briefly review the allocation of funds under the block grant.

ALLOCATION OF BLOCK GRANT FUNDS

Before fiscal year 1989 most of the funding was allocated on a hold harmless basis. That is, funding allocated among states was based on the aid each had received under the categorical programs consolidated into the block grant in 1981. We and others reported that the hold harmless did not allocate funding in accordance with available indicators of state needs.[2] The Congress adopted a new formula beginning in fiscal year 1989 with a gradual phaseout of the hold harmless between 1989 and 1992.

The current formula uses three factors:

---

[2]Hold Harmless Provisions Prevent More Equitable Distribution of Federal Assistance Among States (GAO/T-HRD-90-3, Oct. 1989) and University of California at San Francisco, Institute for Health and Aging, Review and Evaluation of Alcohol, Drug Abuse and Mental Health Services Block Grant Allotment Formulas, Final Report, 1986.

1. Population age groups with high incidence rates of alcohol, drug, and mental health problems. These groups reflect the at-risk population intended to be served by the program.

2. An urban population factor to reflect a higher incidence of drug abuse in urban than in rural areas.

3. An income factor to direct more aid to poorer states to compensate for their more limited ability to fund services from state resources.

The three high-risk population groups (alcohol, drugs, and mental health) each receive a 20 percent weight, and the urban population factor is weighted 40 percent. After each state's population-in-need is determined, the income factor is intended to direct more aid to low-income states.

The current formula also includes a minimum grant, which protects states whose fiscal year 1988 funding was below $7 million.

THREE NEED INDICATORS USED FOR OUR ANALYSIS

To evaluate the current formula, we constructed a need index using three elements that have been suggested as measures of relative need:

1. People at risk.
2. The cost of labor and office space used to provide services.
3. The ability of states to fund services from state resources.

Based on its review of the literature and interviews with experts, the Institute for Health and Aging concluded that 25- to 64-year-olds best represented the population at high risk for alcohol abuse and 25- to 44-year-olds were at highest risk of mental health disorders. This study did not uncover any significant urban-rural differences in these two areas. We have therefore used these two age groups for our analysis.

For drug abuse, research shows a higher incidence in urban areas. Our November 1990 report summarized data showing that urban drug abuse was from 1 to 3 times more prevalent than rural drug abuse.[3] Therefore, in developing our proxy for the population at risk of drug abuse, we used the middle of this range by double counting urban 18- to 24-year-olds. This assumes an urban drug prevalence rate twice that of rural areas.

Double counting urban 18- to 24-year-olds involves a considerably lower weight than is currently being used in the formula. Instead

---

[3]Drug Treatment: Targeting Aid to States Using Urban Population as Indicator of Drug Abuse (GAO/HRD-91-17, Nov. 27, 1990).

of a ratio of 2 or 3 to 1, our November report demonstrated that the 40 percent weight now given to urban population assumes urban-rural differences of about 15 to 1.

The current formula does not make an explicit adjustment for differences in the cost of providing treatment services. However, a dollar of federal aid purchases fewer services in states that must pay more for labor and office space. We therefore used a cost index to reflect interstate differences in the cost of labor and office space. Adjusting for cost differences enables us to compare grant dollars of comparable purchasing power.

An income factor is used in the current formula to help offset higher tax burdens in low-income states providing services comparable to those provided by states with greater financing capacity. We used the same income measure used in current law: Total Taxable Resources, as reported by the Treasury Department.[4] We believe this to be a reliable indicator of states' funding capacity.

---

[4]Total Taxable Resources, as defined and compiled by Treasury, is an average of per capita personal income (PCPI) and gross state product (GSP). PCPI measures the income received by state residents: GSP measures all income produced within a state, whether received by residents or nonresidents, or retained by business corporations.

Our analysis was limited to examining the distribution of federal funding in relation to our index of needs. We did not make an assessment of how states would alter their own spending in response to changes in the funding formula.

HIGH URBAN WEIGHT NOT JUSTIFIED BY URBAN-RURAL DIFFERENCES

To determine if an urban state bias was present, we constructed a need index using the three indicators I've just described: people at high risk, costs, and income. We then compared states' block grant funding under the current formula with our need index. I emphasize that our indicator of the population at high risk of drug abuse assumes that drug abuse is twice as prevalent in urban areas and that our cost index captures the higher service cost in urban states. Therefore, our criteria reflects higher urban needs associated with these factors.

Upon comparing block grant funding under the current formula to that based on our criteria, we found that 10 of the 12 most urban states would have received less under our criteria. This is shown in figure 1.A attached to the end of my statement. At the other end of the spectrum, 8 of the 12 most rural states would have received more, shown in figure 1.B.[5]

---

[5]The four rural states that would not receive higher funding under our criteria do not because they receive relatively high funding due to the minimum grant guarantee provided by current law.

A formula that matches grant funding to our need indicator would generally redirect funding away from urban states and toward more rural states. It should be recognized, however, that even with this adjustment, per capita funding will continue to be significantly higher in urban states.

Despite explicit recognition of relative income, the current formula does a relatively poor job of directing aid to low-income states. Figure 2 compares each state's funding per person at risk to that state's average income. It shows that there is no tendency to target additional aid to low-income states. Instead, funding is randomly distributed among both high- and low-income states. This occurs because the high urban weight works at cross purposes with the income factor, producing the random distribution shown in figure 2.6

PROPOSED FORMULA WOULD BETTER REFLECT ALCOHOL, MENTAL HEALTH NEEDS AND INCOME

The Committee is considering changes to the current formula that largely reflect the need criteria we have used in our evaluation of the current formula. These changes would make a significant contribution toward distributing block grant funds in accordance

---

[6]In addition to this analysis, we performed additional statistical analysis showing the presence of an urban bias under scenarios that place a lower weight on the income dimension of our need index.

with available indicators of alcohol, drug, and mental health problems, the cost of providing services, and states' ability to fund these needs from their own resources.

The revised formula would eliminate the current urban population factor. Instead, it would double count urban 18- to 24-year-olds, which assumes a 2-to-1 difference in urban-rural drug abuse patterns. This is consistent with the studies on urban-rural drug abuse differences that we reviewed in our November report.

In addition, the bill introduces a cost index directly into the formula. Although a high weight on urban population may be viewed as a proxy for the cost of providing services, the correlation between costs and urbanization is not particularly strong. It would therefore be preferable to introduce a cost indicator directly into the formula. Such an approach would avoid distortions that occur where urbanization is a poor reflection of a state's cost position. For example, the least urban state, Vermont, is 76 percent below the national average in terms of urbanization, yet its cost index is only 15 percent below average. Similarly, the most urban state, New Jersey, is 39 percent above average in terms of urbanization, yet its cost index is just 13 percent above average.7

7The cost factor contained in S. 1306 differs from that used in our analysis by placing limits on the index. No state's cost index is allowed to exceed or fall below the national average by more than 10 percent. This limits funding for four high-cost states (Alaska, California, New Jersey, and New York) and increases funding for 15

Finally, Mr. Chairman, I would point out that more accurately reflecting urban-rural differences in people at risk and the cost of services means the income factor would no longer be negated by the high urban weight in the current formula. As a consequence, the higher tax burden that residents of low-income states must bear to provide services comparable to those provided in higher income states will, to some extent, be offset as originally intended.[8]

- - - -

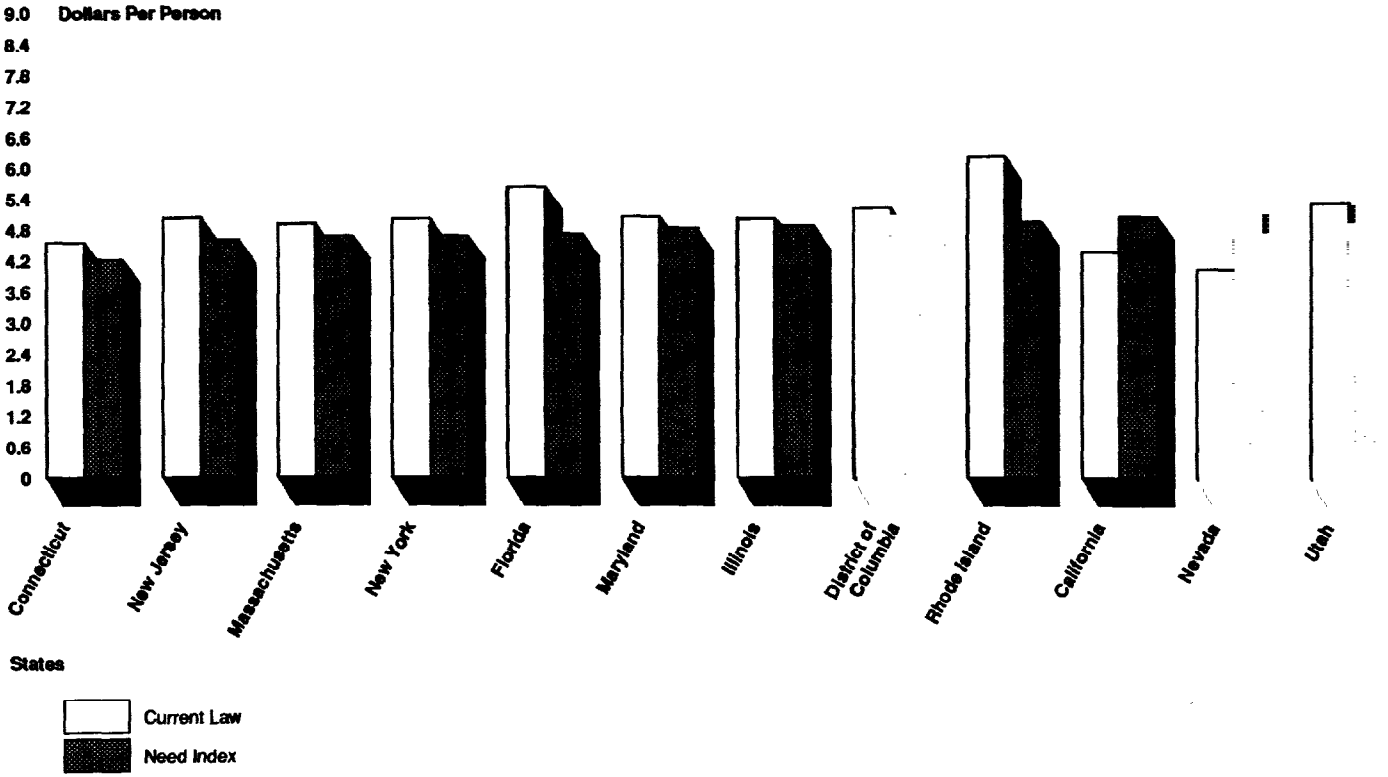
Mr. Chairman, that concludes my statement. I hope the information I've presented will assist the Committee in the difficult task of finding an equitable basis for effectively allocating federal resources for substance abuse and mental health services. I would be happy to answer any questions you may have. Thank you.

---

states with relatively low costs (Alabama, Arkansas, Iowa, Kansas, Kentucky, Maine, Mississippi, Nebraska, North Carolina, North Dakota, South Carolina, South Dakota, Tennessee, Vermont, and Virginia).

[8]The proposed formula also differs from our evaluation criteria in that it continues the minimum grant provision of current law and makes one modification. Rather than allowing no increase in funding for these states, S. 1306 guarantees funding for these states will increase whenever overall funding for the program increases.

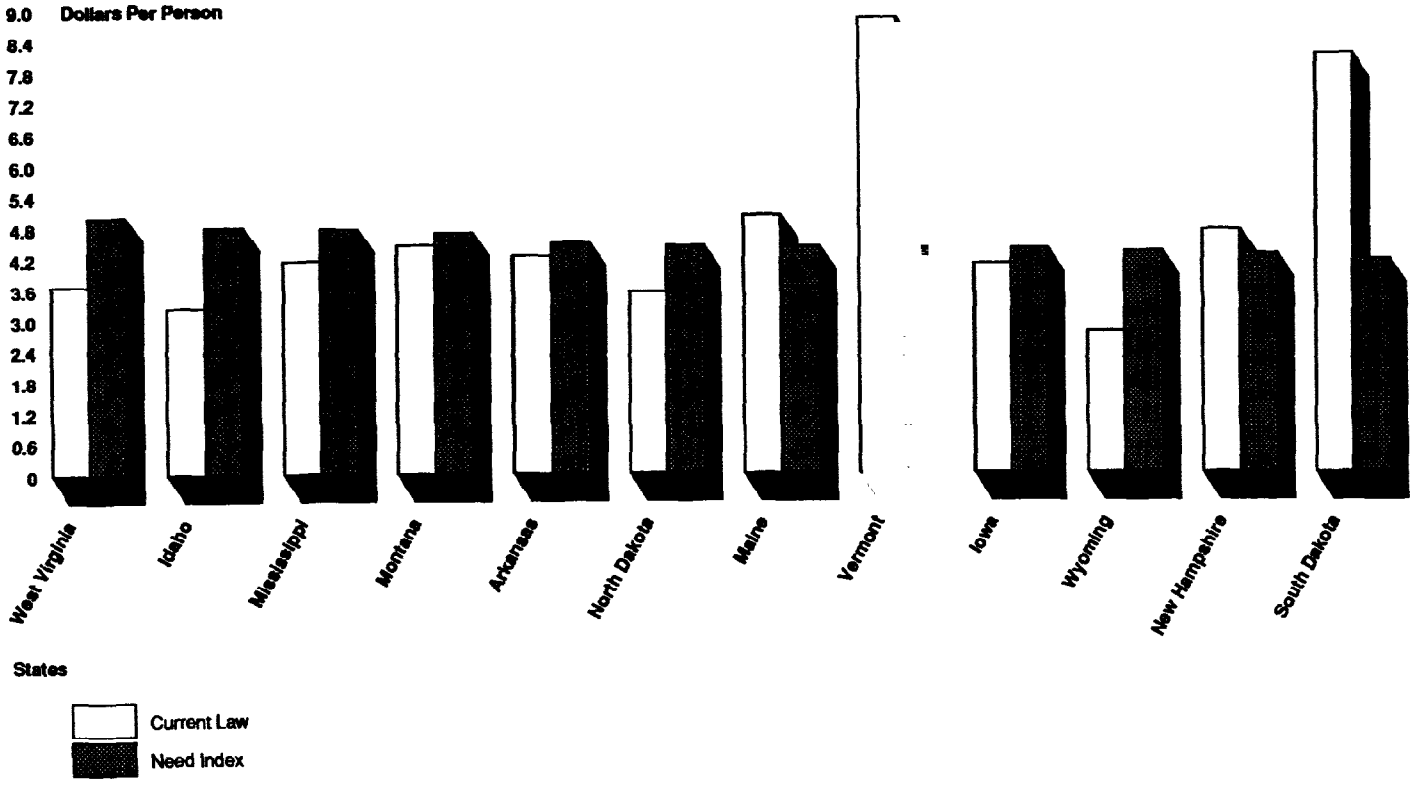
Figure 1A: ADMS Funding for 12 Urban States Under Current Law and Based on an Index of Need



Grant dollars are expressed on a per person at risk basis adjusted for differences in cost.

States are listed by income from highest to lowest, expressed on a per person at risk basis adjusted for cost.

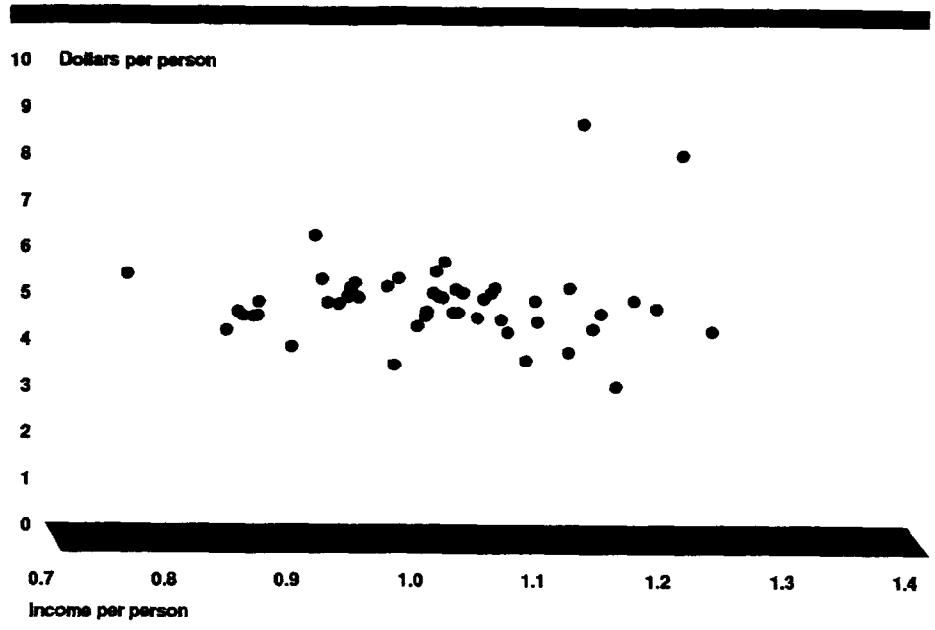
Figure 1B: ADMS Funding for 12 Rural States Under Current Law and Based on an Index of Need



Grants are expressed on a per person at risk basis adjusted for cost.

States are ordered from lowest to highest income, expressed on a per person at risk basis adjusted for cost.

Figure 2: ADMS Grants Under Current Law



Note: Grant dollars and income expressed on a per person at risk basis adjusted for costs.

ATTACHMENT

ATTACHMENT

Table 1

ADMS Grants: Current Law Compared to Need Formula
(per capita dollars and as a percent of U.S. average)

States[a]	Current Law		Need Formula		Urban
	Per Capita	Index	Per Capita	Index	Index
Vermont	$ 6.91	1.445	$ 3.43	Ø.717	Ø.244
Idaho	2.53	Ø.529	3.76	Ø.787	Ø.325
South Dakota	5.26	1.Ø99	2.68	Ø.561	Ø.327
West Virginia	3.Ø3	Ø.635	4.14	Ø.866	Ø.337
Maine	3.81	Ø.796	3.35	Ø.7ØØ	Ø.361
Mississippi	2.9Ø	Ø.6Ø6	3.34	Ø.699	Ø.38Ø
Arkansas	2.91	Ø.6Ø8	3.Ø9	Ø.646	Ø.4Ø1
Wyoming	2.71	Ø.566	4.25	Ø.89Ø	Ø.4Ø8
Montana	3.68	Ø.769	3.88	Ø.81Ø	Ø.432
North Dakota	2.8Ø	Ø.586	3.51	Ø.733	Ø.441
New Hampshire	4.18	Ø.874	3.76	Ø.786	Ø.518
Iowa	3.21	Ø.67Ø	3.43	Ø.717	Ø.521
Kentucky	3.55	Ø.741	3.86	Ø.8Ø6	Ø.548
North Carolina	3.26	Ø.681	3.72	Ø.778	Ø.554
Kansas	3.12	Ø.653	3.16	Ø.661	Ø.589
South Carolina	3.76	Ø.786	3.97	Ø.831	Ø.62Ø
New Mexico	4.21	Ø.881	4.27	Ø.893	Ø.656
Nebraska	3.58	Ø.749	3.51	Ø.734	Ø.658
Oklahoma	3.78	Ø.79Ø	3.98	Ø.831	Ø.682
Alaska	5.19	1.Ø85	7.Ø3	1.469	Ø.69Ø
Alabama	4.24	Ø.888	4.Ø3	Ø.842	Ø.738
Tennessee	4.12	Ø.862	3.98	Ø.832	Ø.74Ø
Indiana	4.27	Ø.892	4.19	Ø.875	Ø.771
Georgia	3.82	Ø.798	4.Ø8	Ø.854	Ø.776
Oregon	4.33	Ø.9Ø6	4.99	1.Ø44	Ø.784
Wisconsin	4.25	Ø.89Ø	4.12	Ø.861	Ø.8Ø8
Minnesota	4.Ø6	Ø.85Ø	4.34	Ø.9Ø7	Ø.82Ø
Louisiana	4.52	Ø.945	4.59	Ø.961	Ø.852
Missouri	4.39	Ø.919	4.12	Ø.861	Ø.867
Virginia	4.39	Ø.917	4.19	Ø.875	Ø.927
Pennsylvania	5.Ø4	1.Ø53	4.62	Ø.966	Ø.984
Ohio	5.Ø7	1.Ø6Ø	4.44	Ø.929	Ø.986
Delaware	4.59	Ø.96Ø	4.87	1.Ø19	1.Ø07
Michigan	5.17	1.Ø81	5.12	1.Ø71	1.Ø16
Washington	4.86	1.Ø16	5.64	1.178	1.Ø33
Texas	4.61	Ø.963	4.53	Ø.946	1.Ø44
Colorado	5.2Ø	1.Ø87	5.48	1.145	1.136
Arizona	4.72	Ø.987	5.Ø7	1.Ø6Ø	1.146
Hawaii	5.19	1.Ø86	5.91	1.235	1.161
Utah	5.3Ø	1.1Ø9	5.24	1.Ø97	1.169
Illinois	5.63	1.177	5.48	1.147	1.182
Nevada	4.71	Ø.985	5.96	1.246	1.21Ø

Connecticut	4.98	1.042	4.61	0.963	1.213
Maryland	5.48	1.146	5.23	1.094	1.213
Florida	4.95	1.036	4.14	0.866	1.241
Massachusetts	5.66	1.183	5.38	1.126	1.261
New York	5.73	1.197	5.37	1.122	1.279
Rhode Island	6.46	1.350	5.12	1.071	1.359
California	5.43	1.136	6.29	1.316	1.360
New Jersey	5.88	1.230	5.38	1.125	1.391
District of Columbia	7.54	1.577	7.13	1.492	1.628
U.S. TOTAL	$ 4.78		$ 4.78		

a States ranked by percent urban population