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SUBSTANCE ABUSE AND MENTAL HEALTH:
Hold-harmless Provisions Prevent More
Equitable Distribution of Federal
Assistance Among States

Statement of
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Before the
Subcommittee on Health and the
Environment
Committee on Energy and Commerce
House of Representatives

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss changes in the formula used to allocate federal aid under the Alcohol, Drug Abuse, and Mental Health Services (ADMS) block grant. The specific changes in the hold-harmless provisions that I will concentrate on are contained in S. 1735, currently being considered by this Subcommittee. Before doing so, however, I would like to briefly review the evolution of the current formula in order to provide the context in which these changes are being considered.

The ADMS block grant was created in 1981 by consolidating 10 categorical grant programs. At that time, funding was simply allocated among the states in proportion to their funding under the earlier categorical programs. Concerned about the equity of this procedure, in 1981, the Congress instructed the Department of Health and Human Services to study and propose options for equitably distributing aid to states under the block grant. After completion of that study, GAO assisted the Subcommittee in devising a new formula, which was adopted effective with fiscal year 1985. But only increases in the appropriations for the programs were to be allocated under the new formula. All states continued to receive their shares of the $462 million allocated in fiscal year 1984. The 1985 allocations consisted of two parts: (1) the increased appropriation allocated under the new

formula and (2) $462 million allocated according to states' 1984 shares (that is, a hold-harmless provision).

In 1984, the Congress also mandated an additional study to see if the new formula could be improved. This study was carried out by the Institute for Health and Aging at the University of California at San Francisco and completed in 1986. We participated in that study in an advisory capacity.

The Institute identified improved measures of the size of the population to be served by the program, commonly referred to as the at-risk population. The Institute also suggested more comprehensive measures of the ability of states to finance program benefits from state resources, commonly referred to as state-financing capacity. The Institute's major finding was that the hold-harmless provision adopted in 1984 was a major barrier to a more equitable distribution of federal funding. Accordingly, the Institute recommended phasing out the provision.

In a July 1987 report, we compared the distribution of states' funding to their share of the at-risk population. We found that on a per person at-risk basis, states received unequal funding, largely because of the 1984 hold-harmless provision.

In response to these findings, in 1988, the Congress revised the formula and changed the provision. At that time, the Congress also folded funding from the Emergency Drug Bill into the block grant. All states, under the changed provisions, received an amount equal to their shares of $330 million based on FY84 funding shares. In addition, the states received an amount under the revised formula. The changed hold-harmless provision guarantees the 15 states with the smallest formula allocation the lesser of 105 percent of their FY88 allotment or $7.0 million.

For small states, the amount under the hold-harmless provision would gradually be reduced as appropriations increase to the point where these states' allotments exceed the amount under the provision. For large states, the amount under the provision will be gradually phased out, reducing the $330 million to zero by fiscal year 1993.

Once the hold-harmless provisions for small and large states are no longer effective, allocations would become more equitable; states with comparable financing capacities per person at-risk would receive equal funding. In addition, states with low-financing capacity would receive more funding per person at-risk.

In table 1, which accompanies our statement, these points can be seen. In the first column, each state's share of the at-risk population is compared with its share of the total population. We see that California and New York have above average proportions of the at-risk populations, but North Dakota and Vermont have comparatively small proportions. In the second column, each state's per capita financing capacity relative to the national average is shown. We see that when expressed on a per capita basis, California and New York have above average financing capacity, but North Dakota and Vermont have a relatively low one. When their capacity is expressed on a per person at-risk basis, however, the relationship is reversed. This is shown in the third column, where you will note that North Dakota and Vermont are 37 and 50 percent above average due to their relatively small at-risk populations. In contrast, California and New York are below average because of their high concentration of at-risk populations.

The inequities caused by the hold-harmless provisions are shown in the last two columns of table 1. Texas and Indiana have comparable financing capacity, but, as shown in column four, there is a significant difference in the funding per person at-risk. When the hold-harmless provisions are no longer effective, both states would receive funding at or near the national average, as shown in column five.

North Dakota and Vermont illustrate the effect of the hold-harmless provision on small states. Vermont's financing capacity per person at-risk is 50 percent above average, but it receives funding that is nearly four times the national average. When the hold-harmless provision is no longer effective, Vermont's share of available funds would decline, better reflecting its relatively small at-risk population and high financing capacity.

Elimination of the provisions would allow a higher need state, like California, to receive funding in accordance with its at-risk population and financing capacity. Elimination of the provisions would also bring about a better balance in funding between states like Indiana and Texas that have comparable financing capacity.

S. 1735 would make these hold-harmless provisions permanent. First, for small states, the provisions would be made effectively permanent by increasing hold-harmless amounts in proportion to increases in program appropriations. The effect of this change is to assure that states like North Dakota and Vermont will continue to receive allocations that are high in comparison with the size of their at-risk populations and financing capacities. Allocating more to these smaller states means that states like California, with larger at-risk populations and lesser financing capacity, will receive less.

Second, S. 1735 freezes a portion of a state's allocation based on its fiscal year 1984 share of $330 million. The effect of this change guarantees a large state like Indiana a continuation of its inordinately high community health center funding when the block grant was created. What would have been a temporarily high funding level has been preserved through the years by this hold-harmless provision.

I understand that the House and Senate Appropriations Committees are considering increasing the appropriation for ADMS to $1.2 billion. Under the current hold-harmless provisions, such an increase would move 9 of the 15 small states to the equity based formula. Such an increase would also move the large states affected by the $330 million hold-harmless provision closer to the equity allocation. By making the hold-harmless provision permanent, S. 1735 would prevent this from occurring.

These points are shown in table 2 for the same states discussed in table 1. Each state's financing capacity per person at-risk is repeated in the first column; each states' funding under current law for FY89 is shown in the second column. The effect of a funding increase to $1.2 billion under current law is shown in the third column; the effect of the formula changes proposed in S.1735 is shown in the last column.

Under current law, the funding for California and New York would increase toward amounts consistent with their at-risk populations and financing capacity, as shown in column 3. Similarly, Indiana, North Dakota, and Vermont--the states that benefit from the hold-harmless provisions--would move closer to the allocation produced by the equity-based formula. The effect of S.1735 is to slow down and even stop this transition, shown in the last column.

Mr. Chairman, this concludes my statement. I hope the information I've presented will assist the Subcommittee in the difficult task of finding an equitable basis for effectively allocating federal resources to combat the nation's substance abuse problem. I would be happy to answer any further questions you may have. Thank you.

Table 1:

FY 1989 ADMS Funding Per Person At-Risk in Relation to States' Financing Capacity (U.S. Average =100)

State	Population at-risk	Financing capacity: Per capita	Financing capacity: Per person at risk	Funding per person at-risk: With hold-harmless	Funding per person at-risk: Without hold-harmless
California	115	111	96	88	102
New York	119	117	98	100	101
Indiana[a]	90	90	100	146	100
Texas	97	102	105	79	97
North Dakota[b]	69	94	137	114	80
Vermont[b]	60	89	150	388	73

[a]Benefits from the hold-harmless provision for large states.
[b]Benefits from the hold-harmless provision for small states.

Table 2:

ADMS Funding Per Person At-Risk:
Current Law Versus S.1735
(U.S. Average =100)

State	Financing capacity	Current law FY89	FY90	S.1735
California	96	88	96	92
New York	98	100	101	90
Indiana[a]	100	146	123	130
Texas	105	79	89	89
North Dakota[b]	137	114	88	115
Vermont[b]	150	388	241	383

[a]Benefits from the hold-harmless provision for large states.
[b]Benefits from the hold-harmless provision for small states.