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GAO

Briefing Report to the Chairman,
Subcommittee on Health and the
Environment, Committee on Energy and
Commerce, House of Representatives

July 1987

BLOCK GRANTS

Proposed Formulas for Substance Abuse, Mental Health Provide More Equity



*Russ
1226*



United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-227622

July 16, 1987

The Honorable Henry A. Waxman
Chairman, Subcommittee on Health
and the Environment
Committee on Energy and Commerce
House of Representatives

Dear Mr. Chairman:

On April 3, 1987, we testified before the Subcommittee on the distribution of Alcohol, Drug Abuse and Mental Health (ADAMH) block grant funds among states. At that time, we reported preliminary results for the substance abuse portion of the grant under the current formula. Subsequent to the hearing, you asked us to analyze the new formulas contained in a draft bill, "Comprehensive Alcohol Abuse, Drug Abuse, and Mental Health Amendments Act of 1987," dated June 23, 1987. Specifically, you asked what effects the proposed formulas would have in improving the equity of block grant funding compared with current law. This briefing report responds to your request.

We have evaluated the equity of the current and proposed formulas from two perspectives:

- How well do they equalize service levels available for at-risk populations in all sections of the country?
- Do they provide similar funding levels for states with approximately equal abilities to pay?

We measured availability of services by using states' average spending from federal and state sources per person at risk. Our measurement of the at-risk population is based on estimated national incidence rates of substance abuse and mental health disorders among selected age groups. The latest year for which data on states' own spending for substance abuse and mental health services are available is fiscal year 1985. Consequently, we have used that year's data for block grant funding to compare state and federal funding for program services.

In 1981, the Congress consolidated 10 project and formula grant programs into the ADAMH block grant. For fiscal year 1987, the current formula allocated over 91 percent of block grant funds to states based on their funding under the prior

categorical programs (i.e., on a hold-harmless basis), and the remaining 9 percent based on their relative funding needs and ability to pay. The draft bill would create separate programs for substance abuse and mental health, using separate formulas. Unlike the current formula, the proposed formulas would allocate all funds according to need and ability to pay and would use more precise measures of these two factors.

RESULTS IN BRIEF

The proposed formulas would substantially improve the equity of the distribution of federal funds. For substance abuse, they would help equalize service levels across states because higher funding levels would be allocated to states with the lowest spending and ability to pay. For mental health, the proposed formula would preserve the targeting to poorer states that is provided by the current formula. Finally, in both substance abuse and mental health areas, the proposed formulas are designed to provide similar grants per person for states with similar abilities to pay.

These improvements are brought about both by phasing out the hold-harmless provision in current law and by using improved measures of need and ability to pay.

SUBSTANCE ABUSE

The current formula allocates over twice the federal funding per person at risk to states that already finance high levels of program services from their own resources compared with states that finance low levels of program services. The proposed substance abuse formula in the draft legislation would reverse this pattern. With the same level of federal funding, the proposed formulas would increase grants to the low-service states and reduce funding in the high-service states. This proposed grant allocation pattern would narrow the disparity in total spending between the highest- and lowest-spending states by approximately 25 percent and thereby provide more equal access to services to at-risk populations.

Current law, on average, gives wealthier states 44 percent higher allotments than poorer states. The proposed substance abuse formula would reverse this pattern. With the same level of program funding, the proposed formula would increase grants to the poorest states by 35 percent and reduce funding to the wealthiest states by 33 percent.

Also, the proposed formula is designed so that states with similar fiscal capacities receive similar levels of federal funds per person at risk. The current formula preserved the differing distribution policies that existed under the prior

categorical programs. As a result, it allocates very different sums to states with equal ability to pay. For example, although New Mexico and Georgia had nearly equal abilities to pay in 1985, New Mexico received slightly more than three times the substance abuse funding that Georgia did. Under the proposed formula, both states would be funded at approximately \$18.50 per person at risk.

MENTAL HEALTH

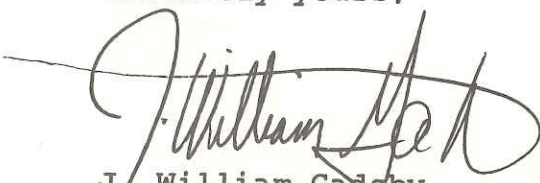
In contrast to substance abuse, mental health block grant allocations currently are, on average, targeted to states with the lowest ability to pay for program services and favor, slightly, the states that provide low levels of program services from their own resources. As was true with substance abuse, however, mental health grants are allocated very unequally to states with nearly equal ability to pay. For example, while Louisiana and Indiana both had nearly equal ability to finance services from their respective tax bases, Indiana received \$48.64 per person at risk while Louisiana received only \$3.04, a 16-to-1 funding disparity. In general, these kinds of disparities were greater in the mental health area than in substance abuse.

Finally, the proposed formula for mental health would continue to favor the states with the lowest ability to pay for program services and those financing the lowest levels of services from their own resources, as does current law. But the proposed formula would provide nearly equal grants per person at risk for states with approximately equal abilities to pay.

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As requested by your office, we did not obtain agency comments. Unless you publicly announce its contents earlier, we plan no further distribution of this briefing report until 30 days from its issue date. At that time, we will send copies to other interested congressional committees and members and will make copies available to other requesters. If you have any questions regarding the contents of this report, please call me on 275-2854.

Sincerely yours,


J. William Gadsby
Associate Director

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ABBREVIATIONS

ADAMH	Alcohol, Drug Abuse and Mental Health
HHS	Department of Health and Human Services
TTR	Total Taxable Resources

BLOCK GRANTS: PROPOSED FORMULAS
FOR SUBSTANCE ABUSE, MENTAL HEALTH
WOULD IMPROVE EQUITY

INTRODUCTION

The Alcohol, Drug Abuse and Mental Health (ADAMH) block grant was created to help states fund local alcohol, drug abuse, and community mental health services. In fiscal year 1985, an estimated \$950.7 million in federal and state funds were spent by the states for alcohol and drug abuse community services. ADAMH block grants included in this sum totaled \$245.9 million or about 26 percent of the combined available funds.¹ For the same year, an estimated \$2.6 billion were spent for community mental health services, including \$235.5 million in ADAMH grant funds or about 9 percent of total funding.²

Block Grant Consolidation, 1981

In 1981, the Congress consolidated 10 project and formula grant programs into the Alcohol, Drug Abuse and Mental Health Services block grant. Initially, block grant funds were to be allocated among states in proportion to the funding they would have received under the prior programs. However, because it was not known whether this procedure would reflect states' relative needs, fiscal resources, and other factors, the legislation required the Secretary of Health and Human Services (HHS) to conduct a study to devise a formula for more equitably distributing program funds among states. The legislation required HHS to take into account (1) the population of the states, (2) the financial resources of the states, and (3) any other factors the Secretary considered appropriate. The Secretary's September 1982 report, The Study of Equitable Formulas for the Allocation of Block Grant Funds, presented three alternatives based on different weightings of population and per capita income.

¹State Resources and Services for Alcohol and Drug Abuse Problems, Fiscal 1985, a Report for the National Institute on Alcohol Abuse and Alcoholism and the National Institute on Drug Abuse, prepared by the National Association of State Alcohol and Drug Abuse Directors, Inc., 1986.

²Estimated by the National Association of State Mental Health Program Directors in a statistical release dated Nov. 3, 1986. The national estimate excludes funds spent by the District of Columbia. Also, expenditures reported by four states were for FY 1983.

Block Grant Reauthorization, 1984

The 1984 reauthorization of the block grant (Public Law 98-509 - Oct. 19, 1984) adopted one of the formulas suggested in the September 1982 HHS study. However, because the formula changes were controversial, each state was guaranteed to receive its fiscal year 1984 funding level, (i.e., "held harmless"), when total funding was \$462 million. Only the funding in excess of \$462 million would be allocated by the new population-per capita income formula. In fiscal year 1987, block grant funding was \$509 million; thus, \$46 million or 9 percent was allocated by the formula adopted in 1984 and 91 percent was distributed on a hold-harmless basis.

The 1984 reauthorization also required HHS to contract with a nongovernmental entity to study the formula and develop more accurate measures of substance abuse and mental health needs. That study was conducted by the Institute For Health and Aging, a research unit of the University of California, San Francisco, and released in 1986.³ It concluded that the current allocation pattern was inequitable, due primarily to the hold-harmless provisions adopted in 1984. In addition to recommending a phase-out of the hold-harmless provision, the report suggested that (1) population differentiated by age (and by gender in the substance abuse area) would better reflect the incidence of mental health and substance abuse disorders than does total population and (2) an alternative measure of fiscal capacity, such as the Representative Tax System or Total Taxable Resources (TTR), be used in place of per capita income.

Proposed Legislation, 1987

A draft bill, titled Comprehensive Alcohol Abuse, Drug Abuse and Mental Health Amendments Act of 1987, proposes to divide the block grant into separate programs for substance abuse and mental health. The proposed formulas for each of these two programs incorporate the major recommendations of the 1986 University of California study.

Unlike the current formula, the draft bill would phase out the hold-harmless provision. By fiscal year 1990, all funds would be allocated based on states' relative needs and ability to pay. In addition, more precise measures of need and ability to pay are used. Need is reflected by states' share of population in the high-risk age groups. Ability to pay is measured by states' Total Taxable Resources rather than per capita income, used in the current formula.

³Review and Evaluation of Alcohol, Drug Abuse, and Mental Health Services Block Grant Allotment Formulas, University of California, San Francisco, Institute For Health and Aging, Final Report, 1986.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to evaluate the equity of the current and proposed formulas for distributing federal block grant funding among the states.

We evaluated the equity of current law and the proposed formulas using two standards of equity as benchmarks: (1) How well do the two formulas reduce disparities in service levels among the states for the nation's at-risk population? and (2) How well do the formulas provide comparable levels of federal funding to states with approximately equal abilities to finance program services from nonfederal revenue sources?⁴

In our analysis, we measure disparities in service levels among the states by the level of spending per person at risk from states' own revenue sources plus their block grant funding. The latest fiscal year for which data on states' own spending for program services is available is 1985. Therefore, our analysis of block grant funds is based on fiscal year 1985 data to compare federal and state funding for the same period. Block grant funding allocations were separated into the amounts spent for substance abuse and for mental health. These amounts are largely a product of federal law, which requires states to earmark 75 percent of their block grant allocations between these two services based on their prior federal funding patterns. The remaining 25 percent can be allocated between these two functions at state discretion.

Our measurement of the at-risk population is based on estimated incidence rates for various substance abuse and mental disorders among selected age groups of the general population, as reported by the University of California's Institute for Health and Aging. For example, the incidence of drug abuse was reported highest in the 18-24 and 25-44 age groups. Consequently, we used each states' share of these two age groups as the basis for

⁴An additional criterion could have been used to evaluate the formulas from the perspective of whether they reward states that exhibit the greatest effort in providing program services from nonfederal revenue sources. We did not use this criterion because (1) the 1981 legislation did not require the Secretary of HHS to include an effort factor in its block grant formula study, and (2) the University of California study argued against such an approach because data on states' effort is not of sufficient quality for use in allocating funds. Instead, it suggested the use of matching requirements if there is a Congressional intent to encourage states to increase their own spending.

measuring each state's at-risk population.⁵ Analogous procedures were employed for measuring the at-risk population with respect to alcohol abuse and mental health disorders.

As a measure of a state's ability to finance program services from its own revenue, we have used the TTR measure of fiscal capacity as defined in a 1985 report by the Secretary of the Treasury.⁶ The Secretary's study concluded that this measure of fiscal capacity is superior to the use of per capita income because it is a more comprehensive measure of state resources available for financing program services. Additional analysis done by the Treasury also demonstrated that, although TTR is a more accurate measure of a state's fiscal resources, it does not significantly change the rankings of rich and poor states from that of other fiscal capacity measures, including per capita income.

The proposed formulas are designed to allocate more funds to lower-capacity states; further, they use the same measures of at-risk population and fiscal capacity as we use in our analysis. Therefore, the allocations under the proposed formulas will satisfy our second equity criterion of providing equal federal funding per person at risk for states with equal fiscal capacities. The current formula would not be expected to fully satisfy this criterion because of the differing distribution policies that existed under the prior project and formula grant programs consolidated into the ADAMH block grant.

⁵More specifically, the Institute reported an incidence rate of 12 percent for the 18-24 age group and 9 percent for the 25-44 age group. Thus the at-risk population for a state was 12 percent of its population 18-24 years of age plus 9 percent of its 25-44 population. This methodology assumes that the incidence rate for each age group is the same in all states. While a better methodology would reflect interstate differences in incidence rates, such data are not currently available.

⁶Federal-State-Local Fiscal Relations: Report to the President and the Congress, Office of State and Local Finance, Department of the Treasury, Sept. 1985.

CURRENT DISTRIBUTION OF SUBSTANCE ABUSE FUNDS POORLY REFLECTS NEEDS, ABILITY TO PAY

The fiscal year 1985 grant allocation for substance abuse was very unevenly distributed among the states. Data in table 1 classifies the 50 states and the District of Columbia into two 13-state groups with the highest and lowest values for each of three factors: (1) their federal substance abuse funding per person at risk, (2) their ability to pay, and (3) the level of states' own spending per person at risk. As can be seen in the federal funding panel, the distribution of substance abuse funding was very uneven. The highest group on average received \$2.48 for every \$1 received by the lowest group.

The data concerning wealth and state spending in table 1 shows that the uneven distribution of federal aid was not targeted to poorer or low-spending states. The wealthiest states received \$1.44 for every \$1 received by the poorest states. Similarly, high-spending states received \$2.02 for every \$1 received by low-spending states. Consequently, federal aid does not help persons at risk in the low-spending states as much as those living in high-spending states.

Table 1:

<u>Distribution of Federal Substance Abuse Funds per Person at Risk Under Current Formula (FY 1985)</u>		
	<u>Current formula</u>	<u>Ratio</u>
U.S. average	\$16.40	N/A
Federal funding:		
13 highest-grant states	26.97	2.48:1
13 lowest-grant states	10.89	
Wealth:		
13 wealthiest states	20.66	1.44:1
13 poorest states	14.33	
State spending:		
13 highest-spending states	24.16	2.02:1
13 lowest-spending states	11.99	

The distribution of federal funds for substance abuse under current law are compared in table 2 with the distribution that would result from the proposed formula. States are grouped

according to the same three factors as in table 1. The grant disparity under the proposed formula would be significantly less than that under current law--\$1.39 for the high-grant states for each \$1 allocated to the low-grant states as compared to \$2.48 for each \$1 under current law. In terms of targeting grants to relatively low-income states, the new formula would allocate \$19.33 per person for the relatively poorer states as compared with \$13.86 per person for the wealthier states, the opposite of current law, which favors the wealthier states.

Finally, the proposed formula would target larger grants to relatively under-served states, the opposite of current law, which favors states that already provide relatively high levels of program services. Data on wealth and state spending in table 2 show that the 2-to-1 advantage of the highest-spending states (column 1) is reversed. Under the proposed new formula (column 2), the lowest-spending states would receive \$17.66 per person compared with \$14.91 in the high-spending states, an 18 percent advantage in favor of the low-spending states.

Table 2:

Comparison of Substance Abuse Funds per Person at Risk Using Current and Proposed Formulas (FY 1985)

	<u>Current formula</u>	<u>Proposed formula</u>	<u>Percent difference</u>
U.S. average	\$16.40	\$16.40	0
Federal funding:			
13 highest-grant states	26.97	19.33	-28.3
13 lowest-grant states	10.89	13.86	+27.3
Ratio	2.48:1	1.39:1	
Wealth:			
13 wealthiest states	20.66	13.86	-32.9
13 poorest states	14.33	19.33	+34.9
Ratio	1.44:1	0.72:1	
State spending:			
13 highest-spending states	24.16	14.91	-38.2
13 lowest-spending states	11.99	17.66	+47.3
Ratio	2.02:1	0.84:1	

PROPOSED SUBSTANCE ABUSE FORMULA WOULD REDUCE DISPARITIES IN SERVICE LEVELS

The proposed formula would help reduce the disparity in service levels across states by promoting greater equalization in

total spending, as shown in table 3. The disparities in total spending from federal and state sources between the wealthiest and poorest states would be reduced by 17 percent if the proposed formula were to replace current law. Similarly, the new formula would reduce the gap in spending per person between the high- and low-spending states by approximately 25 percent, thereby reducing interstate disparities in service levels provided for the at-risk population.

Table 3:

Disparities in Total Spending on Substance Abuse:
Comparison of Current and
Proposed Formulas

	State spending (1)	Total expenditures per person at risk (federal and state)		Percent difference (4)
		Current formula (2)	Proposed formula (3)	
U.S. average	\$ 47.00	\$ 63.39	\$ 63.39	0
Wealth:				
13 wealthiest states	76.05	96.72	89.92	- 7.0
13 poorest states	26.93	41.25	46.25	+12.0
Ratio	2.82:1	2.34:1	1.94:1	-17.1
State spending:				
13 highest-spending states	115.20	139.36	130.12	- 6.6
13 lowest-spending states	11.30	23.29	28.96	+24.3
Ratio	10.19:1	5.98:1	4.49:1	-24.9

These disparity reductions come about because the proposed formula targets aid to states with low rather than high fiscal capacities. Because low-capacity states tend to be low-spending states, their increased aid under the proposed formula will tend to reduce disparities in total spending per person at risk among the states, thereby providing more equal access to services.

This analysis is predicated on the assumption that states receiving larger allotments under the proposed formula would not take actions to completely or partially offset their higher payments by reducing their own spending commitments. Current law contains a nonsupplant provision, which prohibits states from using increased federal aid to reduce their own spending. Table 3, showing a reduction in spending disparities using the proposed

formulas, was based on the premise that states would comply with this provision.⁷

PROPOSED SUBSTANCE ABUSE FORMULA
WOULD PROVIDE EQUAL GRANTS TO
STATES WITH EQUAL ABILITY TO PAY

A secondary effect designed into the proposed formula is to equalize the grants received by states with approximately equal fiscal resources relative to their population at risk. Selected pairs of states of approximately equal fiscal capacities are compared in table 4. Column 2 shows each state's grant per person at risk under current law, while column 3 displays the comparable grants using the proposed formula. In every instance, the proposed formula's grant awards are nearly equal, while grants made under current law vary substantially within each pair.

For example, although New Mexico and Georgia had nearly equal abilities to pay in 1985, New Mexico received slightly more than three times the substance abuse funding as did Georgia. Under the proposed formula, both states would be funded at approximately \$18.50 per person at risk. Thus, the proposed formula achieves a more equitable grant distribution by treating states with comparable fiscal resources more equally.

⁷The draft bill strengthens the nonsupplant provisions of current law by replacing it with a maintenance-of-effort requirement. This requirement would prohibit a state from reducing its own expenditures for either substance abuse or community mental health services below its most recent 2-year average level of such spending. This provision is stronger because it establishes a quantifiable criterion that can be used to verify state compliance.

Table 4:

Proposed Substance Abuse
Formula Provides Equal Funds
to States With Approximately
Equal Fiscal Capacities

State	Index of fiscal capacity (US=100)	Grant per person at risk	
		Current formula	Proposed formula
Arkansas	82	\$15.05	\$19.20
Tennessee	84	8.16	18.94
New Mexico	85	28.10	18.71
Georgia	87	9.28	18.49
Indiana	94	7.96	17.29
New Hampshire	95	16.07	17.19
Rhode Island	96	31.17	16.90
Ohio	97	11.36	16.75
Oklahoma	103	9.76	15.75
Iowa	104	15.58	15.60
Massachusetts	108	21.53	15.03
Illinois	111	11.74	14.55

PROPOSED MENTAL HEALTH
FORMULA WOULD CONTINUE
TO REDUCE SERVICE DISPARITIES

The second part of the ADAMH block grant helps states fund local community mental health services. Like those for substance abuse, the fiscal year 1985 grant allocations for mental health were very unevenly distributed among the states, as shown in the federal funding data in table 5. Unlike substance abuse, however, more funding was provided poorer states and states spending the least from their own resources. For example, the poorer states received \$21.14 per person at risk compared with the \$13.50 received by their wealthier counterparts, as table 5 shows.

Table 5:

Distribution of Federal Mental Health Funds
per Person At Risk Under
Current Formula (FY 1985)

	Current formula	Ratio
U.S. average	\$15.41	N/A
Federal funding:		
13 highest-grant states	32.68	4.45:1
13 lowest-grant states	7.31	
Wealth:		
13 wealthiest states	13.50	0.64:1
13 poorest states	21.14	
State spending:		
13 highest-spending states	12.29	0.89:1
13 lowest-spending states	13.86	

The effect of the proposed formula on total per-person spending for community-based mental health services is shown in table 6. Columns 2 and 3 respectively compare the total spending per person at risk under both current and proposed formulas. The current formula modestly reduces the disparities in total spending between the wealthiest and poorest states and between the highest- and lowest-spending states. For example, the highest-spending states provide \$4.30 for each dollar provided by the lowest-spending states. The current formula reduces this disparity to \$3.62 for each \$1, about 16 percent.

The proposed formula preserves this level of disparity reduction but does not significantly reduce it further. The spending disparity for these services between the wealthiest and poorest states is virtually unaffected. The disparity in the spending on mental health services between the highest- and lowest-spending states would be reduced by only 3 percent.

Table 6:

Comparison of Mental Health Spending
Disparities Using Current and Proposed
Formulas

	State spending ^a	Total expenditures per person at risk (federal and state)		
		Current formula	Proposed formula	Percent difference
U.S. average	\$153.84	\$169.25	\$169.25	0
Wealth:				
13 wealthiest states	143.38	156.88	155.58	-0.8
13 poorest states	95.58	116.72	114.97	-1.5
Ratio	1.50:1	1.34:1	1.35:1	-0.7
State spending:				
13 highest-spending states	242.20	254.49	256.98	+1.0
13 lowest-spending states	56.39	70.25	73.20	+4.2
Ratio	4.30:1	3.62:1	3.51:1	-3.0

^aFigures on states' own funding includes some other federal grant monies, according to an official of the National Association of State Mental Health Program Directors.

PROPOSED MENTAL HEALTH FORMULA
WOULD PROVIDE EQUAL GRANTS TO
STATES WITH EQUAL ABILITY TO PAY

The proposed formula would, however, equalize grants to states of similar fiscal capacity. The current law provides significantly different funding levels for states with approximately equal fiscal resources due to the differing funding policies under the prior categorical programs. Selected pairs of states of equal or nearly equal fiscal capacities relative to their respective populations at risk are shown in table 7. The last two columns show the grants each pair of states received under current law in fiscal year 1985 and what they would receive under the proposed formula. For example, under current law Vermont received \$61.52 per person at risk while Utah was funded at the rate of \$17.43 per person, a 3.5-to-1 funding advantage for Vermont. Under the proposed formula, both states would be funded at just over \$20 per person.

Table 7:

Proposed Mental Health Formulas Provide
Equal Funding per Person at Risk to States With
Equal Fiscal Capacity

State	Index of fiscal capacity (US=100)	Grant per person at risk	
		Current formula	Proposed formula
Vermont	79	\$61.52	\$20.12
Utah	79	17.43	20.13
Louisiana	94	3.04	16.63
Indiana	94	48.64	16.48
California	99	9.24	15.53
Florida	99	19.47	15.54
Texas	99	8.20	15.39
Ohio	99	23.98	15.36
Minnesota	106	5.58	13.81
Massachusetts	108	26.86	13.30
New York	123	8.29	11.42
New Jersey	125	22.76	11.42

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