

INTERIM REPORT OF THE
DEPARTMENT OF MENTAL HEALTH AND MENTAL RETARDATION
ON
CORE SERVICES AND FORMULA FUNDING
TO
THE GOVERNOR
AND
THE GENERAL ASSEMBLY OF VIRGINIA



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HOUSE JOINT RESOLUTION NO. 77

Offered January 28, 1982

Approving a core of program services for mental health, mental retardation and substance abuse services throughout the Commonwealth and requesting reports on core services and formula funding by the Department of Mental Health and Mental Retardation.

Patrons—Slayton, Marshall, Stambaugh, Glasscock, J. S., Giesen, Bagley, R. M., and Pickett

Referred to the Committee on Health, Welfare and Institutions

WHEREAS, one of the most fundamental recommendations of the Report of the Commission on Mental Health and Mental Retardation (H.D. 8, 1980) was that the State Mental Health and Mental Retardation Board be required to develop and adopt a policy establishing a core of mental health, mental retardation and substance abuse services to be provided by community services boards; and

WHEREAS, § 37.1-194 of the Code of Virginia requires that "the State Mental Health and Mental Retardation Board shall determine, subject to the approval of the General Assembly, a core of program services to be provided by community services boards by July 1, 1982"; and

WHEREAS, during 1980 and 1981, the Department of Mental Health and Mental Retardation and the Joint Subcommittee on Mental Health and Mental Retardation devoted considerable time and effort to developing suitable definitions for core mental health, mental retardation and substance abuse services; and

WHEREAS, on December 16, 1981, the State Mental Health and Mental Retardation Board adopted the definitions of core services which will be utilized by the Department of Mental Health and Mental Retardation to determine whether each community services board is providing basic community mental health, mental retardation and substance abuse services; and

WHEREAS, the Commonwealth has had significant experience with the core services definitions adopted in 1981 by the State Mental Health and Mental Retardation Board because the definitions conform to minimal service designations for comprehensive community mental health centers' programs and for mental retardation and substance abuse programs; and

WHEREAS, core services are not mandated services which localities are required to provide, rather, the Department of Mental Health and Mental Retardation will provide monetary incentives in the 1982-1984 biennium for community services boards which do not provide the basic services defined as core services to develop programs which meet the core services definitions; and

WHEREAS, prior to the 1984-1986 biennium the Department of Mental Health and Mental Retardation will develop a formula for equitably funding community services boards which will include incentives for the boards to maintain existing services and to choose to provide new services which conform to the core services definitions; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the definitions of core services for mental health, mental retardation and substance abuse services adopted

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by the State Mental Health and Mental Retardation Board are hereby approved. The core services definitions shall be:

Emergency Service:

Offers 24-hour telephone service dealing specifically with calls for crisis help, or can provide 24-hour walk-in services staffed with treatment personnel offering help for emergency problems 7 days per week, or can provide 24-hour emergency psychiatric services around the clock. May have detoxification capacity or availability.

Inpatient Service:

Offers comprehensive treatment to patients who need 24-hour hospitalization including state institutions.

Day Support/Outpatient Service:

Offers habilitation/rehabilitation programs; individual, group and family counseling services; may include educational components; may include detoxification programs.

Residential Service:

Offers alternative community living arrangements. This can include, but is not limited to, group homes, cooperative apartments, and/or domiciliary care. May include specific therapeutic and training supports.

Prevention/Early Intervention:

Offers consultation to community agencies, the public and other providers relating to mental health, mental retardation and substance abuse clients. Offers early intervention services for at-risk populations.

The core services definitions shall be used by the Department of Mental Health and Mental Retardation to assess the programs and services provided by community services boards and to determine whether the boards offer basic mental health, mental retardation and substance abuse services to the jurisdictions they serve. The core services definitions shall be an integral factor in planning the delivery of statewide mental health, mental retardation and substance abuse services and in developing a funding formula to equitably fund community services for mentally handicapped persons in the Commonwealth; and be it

RESOLVED FURTHER, That the Department of Mental Health and Mental Retardation is requested to submit an interim report on the implementation of core services and on formula funding to the House Committee on Appropriations, the House Committee on Health, Welfare and Institutions, the Senate Committee on Finance, and the Senate Committee on Education and Health by January 1, 1983; and be it

RESOLVED FINALLY, That the Department of Mental Health and Mental Retardation is requested to present a final report on core services and formula funding to the same committees of the House and Senate by October 1, 1983. The final report shall focus on the impact of core services and formula funding on the 1984-1986 biennial budget.

INTRODUCTION

The 1982 Session of the General Assembly enacted House Joint Resolution No. 77. The Resolution approved definitions of the five basic core services; it requested the Department to submit an interim report on the implementation of core services and the development of a funding formula by January 1, 1983; and it requested a final report on these subjects by October 1, 1983. The Legislature also appropriated an additional \$11.02 million to support implementation of core services on a statewide basis during the 1982-1984 biennium.

The Commissioner appointed a task force in February, 1982 to obtain citizen input and to assist the Department in fulfilling the General Assembly's requests. The Task Force on Core Services, Formula Funding, and Facility Census Reduction included representatives from Community Services Boards, state facilities, advocacy and constituency groups including family members of institutionalized individuals, and the Department. The Commissioner charged the task force with:

- developing a mechanism to distribute the core services gap-filling funds,
- addressing continued census reductions in state institutions, and
- recommending a funding formula.

The ultimate goal of these efforts is to achieve a balanced service delivery system which:

- allocates resources appropriately to institutional and community programs;
- encourages the development and accessibility of basic core services in every community; and
- assures the equitable distribution of available resources among communities throughout the state.

The task force completed its work in October, 1982 and submitted recommendations to the Department.

CORE SERVICES IMPLEMENTATION

A. Interpretive Guidelines

The 1982 General Assembly approved definitions for five core mental health, mental retardation and substance abuse services: emergency, inpatient, day support/outpatient, residential, and prevention/early intervention. To enable determinations of gaps in core services, the task force developed a set of interpretive guidelines which specify target populations and units of service. The Community Services Boards and the Department have used these guidelines to identify and fill core services gaps.

B. Gap Filling

The Department reviewed task force recommendations and decided to allocate the additional \$11.02 million among three categories: filling gaps in core services, supporting census reduction efforts, and funding a reserve for special needs and projects. The reserve fund will be used to prevent the loss of existing core services due to unexpected revenue losses and to support innovative and cost-effective approaches to delivering services and reducing institutional utilization. Table 1 below displays these allocations by category and fiscal year.

TABLE 1

ALLOCATION OF GAP FILLING, CENSUS REDUCTION, AND RESERVE FUNDS

	<u>Fiscal Year 1982-1983</u>	<u>Fiscal Year 1983-1984</u>	<u>Total (millions)</u>
Gap Filling	\$2,318,700	\$5,101,300	\$ 7.42
Census Reduction	781,200	1,718,800	2.50
Reserve Fund	<u>343,700</u>	<u>756,300</u>	<u>1.10</u>
TOTAL	<u>\$3,443,600</u>	<u>\$7,576,400</u>	<u>\$11.02</u>

The task force proposed and the Department adopted a formal request for proposal (RFP) mechanism to distribute these funds. The Department's goals for use of the \$11.02 million appropriation are stated in the RFP package. The short-term goal is to fill as many absolute gaps in community services programs as possible which will achieve a more equitable distribution of core services statewide. The intermediate goal is to reduce institutional utilization which will improve services in the facilities for those individuals who require this type of care and cannot be served in their own communities. The long-term goal is to create a system of services where the distinction between institutional and community services is replaced by a unified system which assures access to a continuum of services responsive to the needs of each individual. The RFP document also emphasized the Department's priorities for funding programs which:

- document absolute gaps in services,
- are the most needy,
- are the most feasible and have a high probability of success,
- relate to divisional (MH, MR, SA) service priorities,
- emphasize regional approaches when feasible, and
- have a direct impact on census reductions.

All Community Services Boards which believed they had absolute gaps in core services were invited to apply for core gap funds by October 15, 1982. The Department received 77 proposals from individual Boards and consortia of Boards. The core gap proposals were evaluated through a two-tiered process.¹ Table 2 below displays the amounts requested and approved in each disability area. The allocation of the \$7.42 million for core gap-filling efforts has been completed.

¹ The proposals were reviewed at two levels. First, they were screened using two decision rules: was a service gap documented and was the proposed timeline feasible? Proposals which passed the initial screening were evaluated based on the Board's funding equity position (50 points), the proposal's quality (25 points), and its cost effectiveness (25 points).

TABLE 2
PROPOSAL AMOUNTS RECEIVED AND APPROVED FOR CORE GAP FUNDS BY DISABILITY AREA

	<u>Fiscal Year</u> <u>1982-1983</u>		<u>Fiscal Year</u> <u>1983-1984</u>	
	<u>Requested</u>	<u>Approved</u>	<u>Requested</u>	<u>Approved</u>
Mental Health	1,741,816	948,971	3,723,906	2,002,982
Mental Retardation	768,080	726,217	1,653,481	1,526,054
Substance Abuse	<u>1,512,362</u>	<u>703,879</u>	<u>2,627,088</u>	<u>1,487,079</u>
TOTAL	<u>4,022,258</u>	<u>2,379,067</u>	<u>8,004,475</u>	<u>5,016,115</u>

The approved Fiscal Year 1982-1983 figure exceeds the amount in Table 1 because \$48,117 of census reduction funds were transferred to the core gap category for mental retardation services.

Community Services Boards are able to apply for census reduction funds through the same RFP process by January 15, 1983 and for reserve funds during the remainder of the fiscal year. Census reduction funds, totalling \$2.50 million, will be allocated within several months.

FORMULA FUNDING

A. Formula Funding Considerations

In developing a funding formula, certain issues, principles, and unique characteristics are considered. These include the rationale for a formula, approaches to implementation, local match requirements, state and local responsibilities, and formula limitations.

1. Rationale for Formula

Originally, the concept of a formula was seized upon as a way to address the wide variations in the allocation of resources and the availability of services across Virginia. Historically, the growth and development of the Community Services Board system has been based on local initiative, the ability to match or draw down state funds to provide services in accordance with local and state priorities. Because such local initiative varied across the Commonwealth, this resulted in service gaps and the inequitable distribution of state funds. The concept of formula funding as well as the initiative for budgeting gap filling funds is intended to redress these problems.

2. Approaches for Implementing Formula Funding

To address the degree of funding equity among localities by means of a formula involves one or more of the following approaches:

- a. Redistribute existing state dollars from boards which have been historically more highly funded to boards which have been "underfunded". This could, however, disrupt existing services, eliminate or reduce many necessary programs and it falsely assumes that higher funded areas have a surplus of services and no further needs.
- b. Significantly increase state funds and local match to upgrade local services for all Boards determined to be less than equitably funded.

- c. Combine the approaches of new funding and redistribution over an extended period of time.

3. Local Match Requirements

Currently, the Code of Virginia requires a minimum of 10 percent local match. Departmental policy defines acceptable local match as tax dollars, contributions, and in-kind and excludes fees, federal grants and other revenue sources. Boards contributing at only this minimum amount may not be able to meet match requirements if additional funds become available to bring up their equitable distribution. The following options may have to be considered in addressing this problem:

- a. Formula funds may not be made available unless the locality provides additional local match to draw down the state funds.
- b. Change policy definitions of acceptable match or reduce the statutory minimum requirement. This could include fees for match and waivers. This may cause loss of existing local tax funds since once the precedent is established other boards may have difficulty in maintaining their present local tax support.

4. State and Local Responsibilities

The current statutes contain only one mandate for local governments: to join or establish a Community Service Board by July 1, 1983. The Code of Virginia contains no mandate for local governmental financial participation in the cost of mental health, mental retardation, and substance abuse services. The Code does mandate Services Boards to engage in prescreening activities but it contains no list of services which each locality or Board must provide. This is significantly different from other state-supported social, health and education programs where formulas are applicable which do require the availability of the local match and localities are mandated to provide certain services. In other words, in the Community Services Board system, the extent and availability of local services is dependent upon local initiative and commitment. This fact will inevitably affect the application of any formula.

5. Formula Limitations

A formula is only an allocation mechanism and, by itself, it does not address performance, efficiency and incentives for altering existing services or changing the use of current state funding. For example, the Commission on Mental Health and Mental Retardation recommended distributing some state funds outside of a formula. These non-formula monies could be used to address factors such as a high percentage of discharged patients and residents in a Board's area and the unavailability of comparable services from private providers. Thus, a formula might be used as only a target for which communities can submit budgets provided they comply with standards, core service criteria, and other performance measures necessary to insure quality programs delivered in an efficient manner.

B. Formula Funding Options

Given the preceding considerations, the Department is presenting two basic approaches toward a formula. The first is the recommendation by the task force to the Department.

1. Option Number 1 - Task Force Formula

The task force formula considers all revenues including state and local funds, fees, and all other sources. Formula allocations are not based on a State appropriation but on the total per capita cost of a standard minimum array of services. The task force did not develop this cost but suggested that it be determined at a future time using professionals, national statistics, and trends. For this report, the Department is using a median per capita basis to determine the total cost of services. The projected fiscal year 1984 budget is used which includes projected inflation and allocated core gap funds. By using the median, this acknowledges that funding to those boards under the median should be increased to address the inequities in the distribution of funds and services. However, it must be pointed out that the boards above the median are not necessarily overfunded or meeting all the service needs in their area. Thus, for purposes of cost projections and addressing the initial priority of increasing the services in the poorer areas, the median approach is used.

a. Task Force Formula Components and Definitions

The task force formula determines the state community service allocation in each disability area by using the following factors.

- 1) A median per capita total cost is determined by ranking the current per capita expenditures for all 40 boards.
- 2) A small factor addressing poverty based upon the index of the number of persons at or below the federally determined poverty level is added to the median amount. In effect, this adds up to \$1.50 per capita to the basic median depending upon the degree of poverty in any locality.
- 3) A cost of living adjustment is made based upon Tayloe-Murphy Institute data which allows for differences in the cost of providing services among localities. This allows for up to a 23% cost of living adjustment in higher cost areas.
- 4) The adjusted per capita median, after accounting for the poverty and cost of living factors, is multiplied by the population of the particular area to obtain the total cost for services for a particular discipline, i.e., MH, MR, and SA.
- 5) The Board's local share is calculated based on the localities' ability to pay which consists of three components:
 - a. real and corporate property value, weighted at 50%;
 - b. average individual income weighted at 40%; and
 - c. sales volume, weighted at 10%.

These factors and weights resemble Virginia's school aid formula ability to pay determinations. These weighted components are added together and the sums for all 40 boards are indexed to range between 20 and 60%, which represent the local match ratios. Thus, the poorer Boards are required to provide 20% local match and the wealthier Boards are required to provide up to 60% local match. For a given board, the total cost (step 4) is multiplied by this percentage to compute the local share. The 20% figure exceeds the current statutory minimum of 10%. The minimum 10% match was raised by the task force to 20% because this formula allows all non-state funds (fees, local tax dollars, contributions, federal grants, workshop sales, etc.) to be used as local match. This formula would require a revision of the Code and could jeopardize continuation of present levels of local tax support in some areas.

- 6) The state cost is determined by subtracting the local share from the total cost.

b. Sample Application

An example of the application of this formula follows for "Board X" in the mental health disability area in Fiscal Year 1984.

- 1) The median basic total per capita cost for mental health is \$7.05.
- 2) The poverty factor for this Board is + \$.53; thus the adjusted per capita cost is \$7.58 (Steps 1 + 2).
- 3) The cost of living factor is 1.02 (2% cost of living adjustment); thus the adjusted figure is now \$7.73 (Steps 2 X 3).
- 4) The total cost for mental health services is \$7.73 (per capita) X 199,814 (population) = \$1,544,562.
- 5) The Board's local ability to pay factor is 27.055%; thus the local match or share of the total cost is \$1,544,562 X 27.055% = \$417,869.
- 6) Finally, the state share is the total cost minus the local share or \$1,544,562 - \$417,869 = \$1,126,693, a difference of \$407,981 in additional state funds over the current grant process.

As indicated, this formula is based on a goal or target of bringing all Boards up to the median total per capita cost. Thus it can be used as a basis for budget justifications and requests. Obviously, this was a theoretical formula developed by the task force without any budgetary limitations. The cost to implement this formula by bringing under-median boards up to their median goal in Fiscal Year 1984 would be \$19.3 million in state funds and \$4.1 million in local funds.

2. Option Number 2 - Standard State Per Capita Allocation

Option 2 considers only the allocation of state funds. Like Option 1, it is based on a per capita distribution but it includes no weights or factors for poverty or cost of living. The equitable distribution of state dollars would be based on the median per capita allocation of state funds for each disability area. No changes would be made in the present policy definition of allowable local match (tax dollars, contributions and in-kind) or in the current statutory requirement for a minimum of 10% local match.

a. Formula Components

The formula in Option 2 would determine the state allocation as follows:

1. the median state per capita cost is determined; and
2. that figure is multiplied by the population for a given Board.
This results in the state fund allocation.

b. Sample Application

An example of the application of this option follows for "Board X" in the mental health disability area for Fiscal Year 1984.

1. the median state per capita cost is \$4.12
2. the state allocation equals \$4.12 X 199,814 (population) = \$823,234; compared to the projected allocation of \$718,712 under the current process, this is an increase of \$104,522.

The cost to implement this formula would be \$5.2 million annually in state funds and \$131,000 in local funds.

CONCLUSION

The core services definitions, approved in House Joint Resolution No. 77, have been refined with interpretive guidelines. These guidelines were used to identify the existence of gaps in core services. The Department has completed allocation of the core services gap-filling funds to increase the accessibility of core services in Fiscal Years 1983 and 1984 and will begin allocating the census reduction and reserve funds in the near future.

The Department, recognizing current economic problems, does not believe that any formula which would redistribute current State funds earmarked for Community Services Boards would be appropriate at this time, recognizing that the localities are experiencing comparable funding problems. These obvious economic conditions would make it extremely difficult, if not impossible, for any Services Board to locally fund the losses which would occur if budgeted state monies were taken from them to better equalize state funding. Thus, cuts necessary for equalization would likely require deletion of good services and programs. For these reasons the Department strongly recommends consideration of the concept of the task force formula for execution only at such time as significant new funds become available.

As an alternative, the Department proposes review of the per capita state median approach which would allow for a more equitable distribution of state funds. The Department also is considering "performance contracts" in conjunction with either of the formula options or even in lieu of a formula if economic deterioration persists. Accordingly, the Department will establish a small work group which includes community representation to begin addressing the following formula implementation activities immediately:

1. Explore the possibility of combining formula funding development and performance contracting. This would include considering various indicators and criteria and reviewing mechanisms used in other states.
2. Conduct further analysis about the classification of the Community Services Boards, particularly as it is affected by whether the Board relates to one or to several local governments. This analysis would examine Board accountability and responsibilities in that context.
3. Study the planning and priority setting activities in the Community Services Board system to assure that they focus on increasing accessibility to core services.

Thus, the core services activities are nearing completion as the core services gaps begin to be filled and the census reduction proposals are developed. Also, formula funding deliberations are entering their final phase. The Department submits this interim report to the General Assembly for its advice and consent, intending to use the funding formula in its 1984-1986 budget development. The final report on core services and formula funding will be submitted to the Legislature on October 1, 1983.