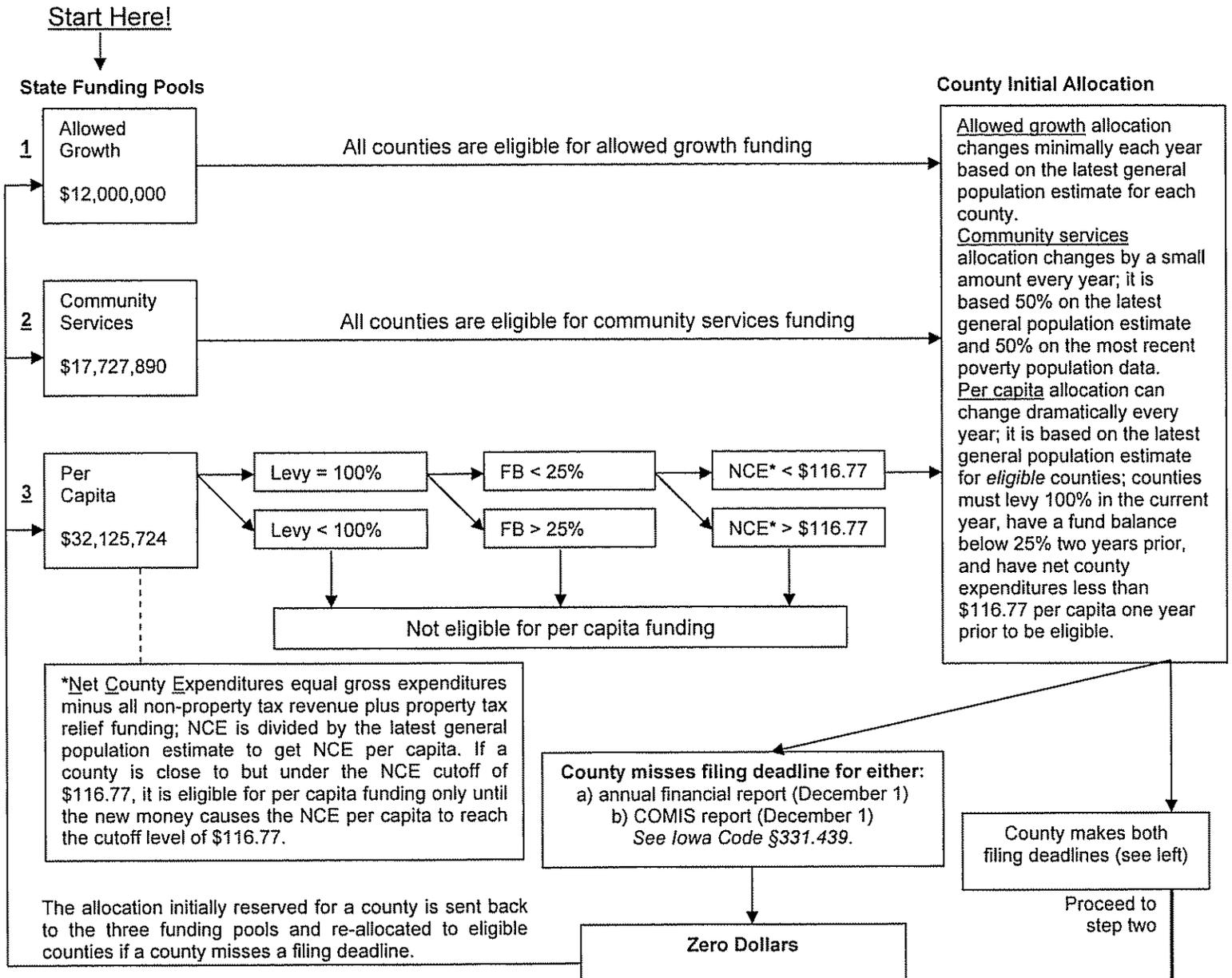


Step one – initial allocation – based on three distinct funding pools

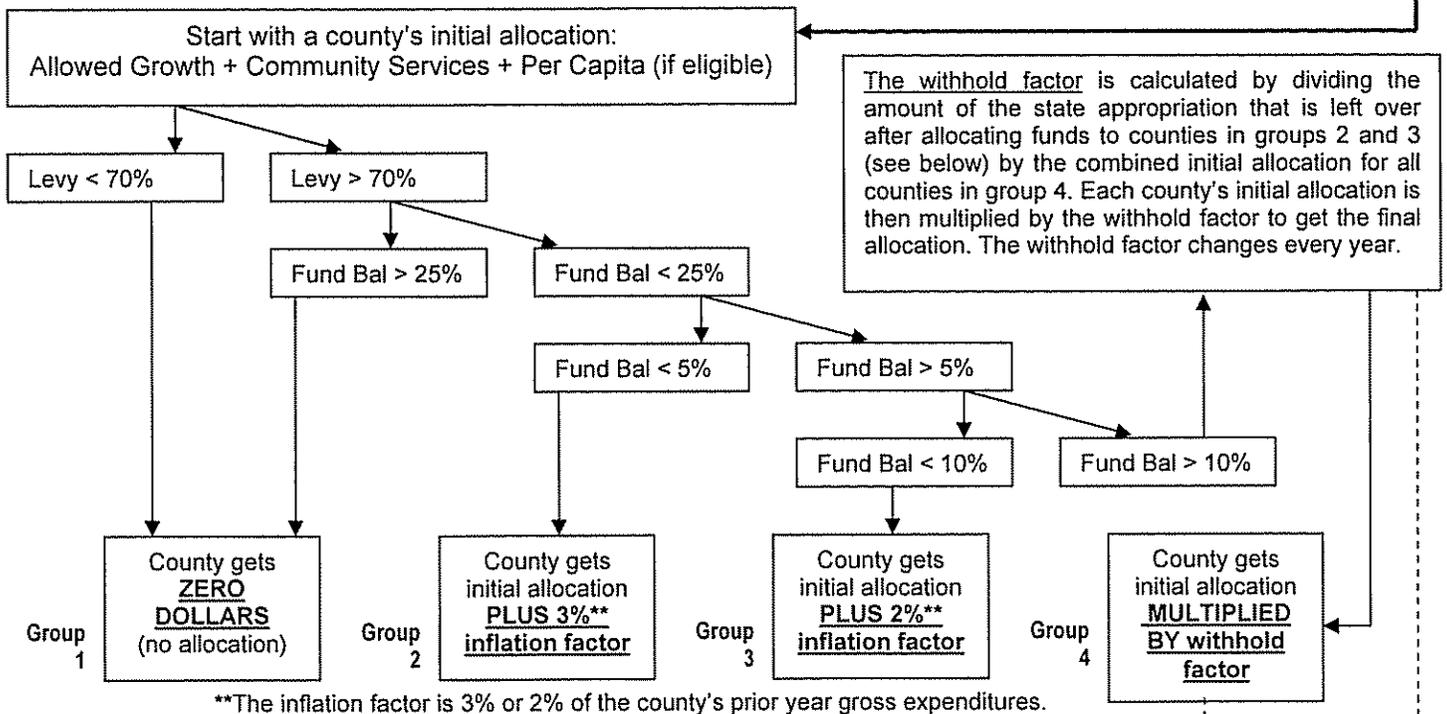


Withholding

The three state funding pools add up to an initial allocation of \$61,853,614. But the state only appropriated \$54,189,038 to counties for Mental Health Allowed Growth. We need a mechanism to get from the initial allocation to the final appropriation – that mechanism is called the “withhold factor.” This year the withhold factor is \$7,664,576, the difference between the initial allocation and final appropriation. The withhold factor only affects counties with fund balances between 10% and 25%. See how it works in step two. (By the way, the relevant “fund balance” in step two is the fund balance in the year immediately prior to the allocation year. In the per capita allocation under step one, the fund balance two years prior to the allocation year is the relevant number. The relevant levy in step two is the current year levy, just like in step one.)

But first, the obvious question: Why doesn't the state just allocate enough money to each of the three funding pools to match the appropriation? That would eliminate the withhold factor and, in fact, the entire step two of this whole process. In fact, we'd be done right now if the state did that. But as you notice, the criteria for receiving funding from the three pools are not the same. By “over-allocating” money to one pool or another and then using the withhold factor, the state can reward – or penalize – counties for exhibiting certain behavior. For instance, when the state “over-allocates” money to the per capita fund, it rewards counties levying 100%. So who gets penalized when those counties get rewarded? The counties levying between 70% and 100% with a fund balance between 10% and 25%. Their penalty comes in the form of a withhold factor, which reduces their final allocation. The withholding process is really just a rather complicated tool that the Legislature uses to make policy decisions.

Step two – final allocation – only four options – necessary because of the withhold factor



A note about withholding – "The Ledge"

By now you realize that the mental health allowed growth funding formula is not very simple. And just when you thought you were at the end, there's another twist: the ledge. The ledge only affects those counties in group 4 above, those that are levying at least 70% and have fund balances between 10% and 25%, and is best explained with an example. Let's say County 'A' levies 100% and has a fund balance of 9%; the county would fall in group 3 and receive its initial allocation plus the 2% inflation factor. Now let's say County 'B' levies 100% and has an 11% fund balance; it would fall in group 4 and receive only its initial allocation multiplied by the withhold factor. Even though County 'B' is only 1 percentage point above the 10% fund balance limit, it could potentially "lose" tens or even hundreds of thousands of dollars. The "lost" money is the amount of a county's initial allocation that it loses because of the withhold factor. Let's say that County 'B' has expenses of \$500,000, a fund balance of \$55,000 and an initial allocation of \$150,000, and the withhold factor is 50%. The result is that County 'B,' which is over the 10% fund balance level for group 3 by only \$5,000, loses \$75,000 in state funding by the move to group 4. The ledge is designed to prevent that situation.

The ledge says that a county in group 4 can only "lose" an amount of money equal to the amount by which its fund balance exceeds 10%. In our example above, County 'B' could only lose \$5,000 – not \$75,000. The difference between the county's allowed loss and its loss due to the withhold factor (\$70,000 in our example) is "added back" (the ledge is also called the "add-back") in to get the county's final allocation. But remember, it's all coming out of the same state appropriation. So when one county gets some funding "added back" due to the ledge, that changes the withhold factor for every other county in group 4. So after we go through the process outlined in step two above and get to the final allocation for group 4, that might not be the final allocation. We need to check to see if the ledge applies to any counties. If it does, we need to give those counties extra money (their add-back funding) and then re-calculate the withhold factor for all the remaining counties. Then we need to check again to see if the new withhold factor subjects any other counties to the ledge, and if so give them their money and re-calculate the withhold for the remaining counties. This goes on and on until no more counties are subject to the ledge. Then, finally – mercifully – the allocation process is over. Until next year.

Withhold Factor Calculation – Sample

Available Money
 Combined initial allocation = Withhold Factor
 (group 4 counties only)

$$\frac{\$2,000,000}{\$4,000,000} = 50\% \text{ Withhold Factor}$$

Calculation for Individual Counties
 Initial Allocation * Withhold Factor = Final Allocation

$$\$150,000 * 50\% = \$75,000$$

Review of MHDD Commission FY 2008 and FY 2009 MH Allowed Growth Recommendations - As of November 16, 2006

	Fiscal Year	Percent of MH Allowed Growth	Comments
17,650,233	2002		FY 2002 reduction from \$26,492,712 to \$8,842,479
<u>422,493</u>	2003	2.393694%	
18,072,726			
<u>387,205</u>	2004	2.142484%	
18,459,931			
<u>527,954</u>	2005	2.860000%	
18,987,885			
<u>379,758</u>	2006	2.000000%	
19,367,643			
<u>634,746</u>	2007	3.277354%	
20,002,389			
<u>400,048</u>	2008	2.000000%	
20,402,436			FY 2008 amount of increase with replacing FY 2002 reduction w/ percents of allowed growth included for the succeeding years.
<u>3,161,999</u>	new beyond 08 appropriation		FY 2008 increase beyond already appropriated if General Assembly returns to original 3.0% growth over FY 2007. Since FY 2007 was increased late during Session, the \$3.1 million wasn't added to FY 2008.
23,564,435			Total for return of FY 2002 reduction and FY 2008 revised.
<u>253,069,955</u>			Base to calculate 08 growth with the additional \$3.1 million added for FY 2007
<u>103.00%</u>	(7,592,099)		Total of 3.0% growth over final FY 2007, of which \$4.4m is already appropriated)
260,662,054			Base to calculate 09 growth with the modified FY 2008 appropriation
<u>253,069,955</u>			Base to calculate 08 growth with the additional \$3.1 million added for FY 2007
<u>20,402,436</u>			FY 2008 amount of increase with replacing FY 2002 reduction w/ percents of allowed growth included
<u>7,592,099</u>	(includes \$4.4 m already appropriated)		FY 2008 amount of increase with inclusion of 3.00% over the revised FY 2007
281,064,490			Revised base for FY 2009 growth calculation if FY 2007 \$3.1 million and the return of the reduction incurred in FY 2002 and allowed growth percents since then are added for FY 2008.
			Amount of new money for FY 2009 by percent of allowed growth with inclusion of \$20.2 million from return of FY 2002 reduction with growth and the possible revised FY 2008
2,810,645		1.00%	
5,621,290		2.00%	
8,431,935		3.00%	
11,242,580		4.00%	
14,053,225		5.00%	
16,863,869		6.00%	
19,674,514		7.00%	
22,485,159		8.00%	
25,295,804		9.00%	
28,106,449		10.00%	