



SMHA Budget Shortfalls:

FY 2009, 2010, & 2011

Results based on forty-two states responding

December 5, 2008

MAJOR FINDINGS

- Based on all 50 states and the District of Columbia, 41 States (80%) are experiencing budget cuts due to state revenue shortfalls in the current and next fiscal years (2009 & 2010)
- Of the 42 states responding to our request:
 - 32 States (76%) are experiencing budget cuts averaging 4.9% in FY 2009
 - 32 States (76%) expect budget cuts averaging 8.2% in FY 2010
 - 13 States (31%) expect budget cuts averaging 9.4% in FY 2011
- States are making these cuts by Freezing Staff Hires (94%), Reducing Administrative Expenses (91%), Reducing Services (78%), Cutting Staff (59%), Reducing the Number of People Served (50%), and Closing State Hospitals and Wards (47%)

FOR ADDITIONAL INFORMATION:

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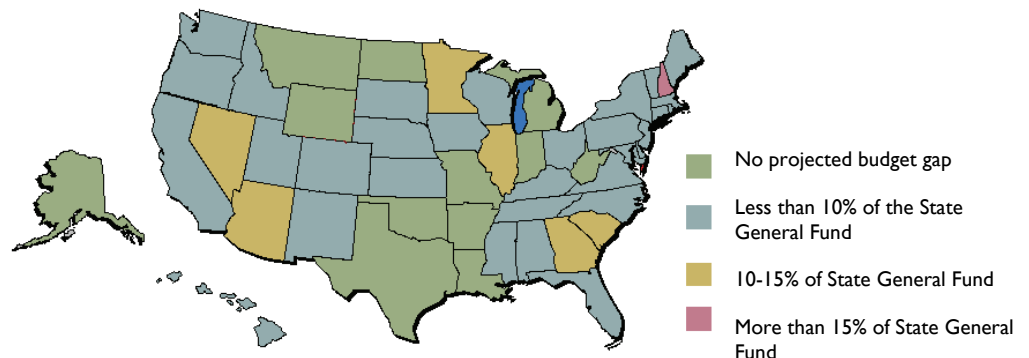
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State Budget Overview

According to a report from the National Conference on State Legislatures on December 5, 2008, 41 states are facing budget shortfalls in 2009. States closed a cumulative gap of nearly \$40 billion in preparation for the Fiscal Year 2009 budget. Since that budget was completed, states face an additional gap of \$30 billion. Half of the states project a cumulative shortfall of \$63.7 billion for 2010.¹

States are experiencing budget shortfalls mainly because increased unemployment and reduced consumer spending are limiting tax revenues. States have requested an economic stimulus package from the federal government to bridge the gap. Without such a plan, states argue that increased taxes or further cuts to government programs will be needed to bridge the gap.

Overall State Budget Reductions: Fiscal Year 2009



¹Data and information from the National Conference on State Legislatures. <http://www.ncsl.org/summit/budgetmap.htm>

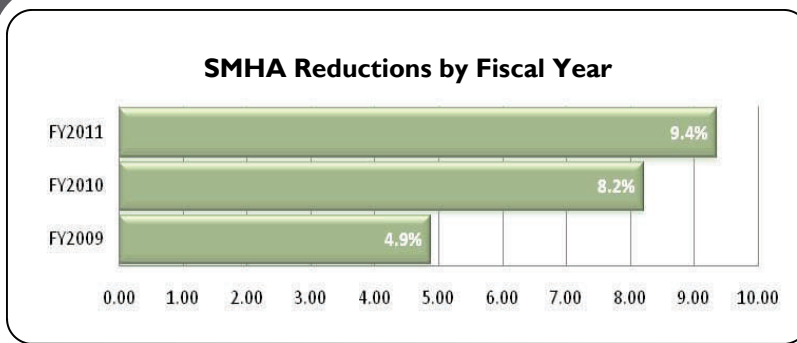
State Mental Health Agency Budget Shortfalls

A study compiled by the National Association of State Mental Health Program Directors Research Institute, Inc. (NRI) found that most states' mental health agencies are experiencing budget cuts in the current and next fiscal years. Forty-two states responded to this study, with most responses received the last half of November, 2008. Many states have indicated that between the time they submitted their original information and the time this newsletter went to press, their budget situation has significantly deteriorated.

Thirty-two of the 42 responding SMHAs reported that their states are experiencing budget shortfalls in both the current fiscal year (FY2009) and next fiscal year (FY2010). Thirteen of the 42 states are already expecting budget shortfalls in FY2011.

For the majority of states with budget shortages, it is unknown how the budget cuts are impacting the SMHA in comparison to other state agencies. Nine states reported that the SMHA is being cut at the same level as other agencies (equal across the board budget cuts). Five states are experiencing cuts larger than most other state government agencies, while another five states report that the SMHA is being cut less than those of other state agencies.

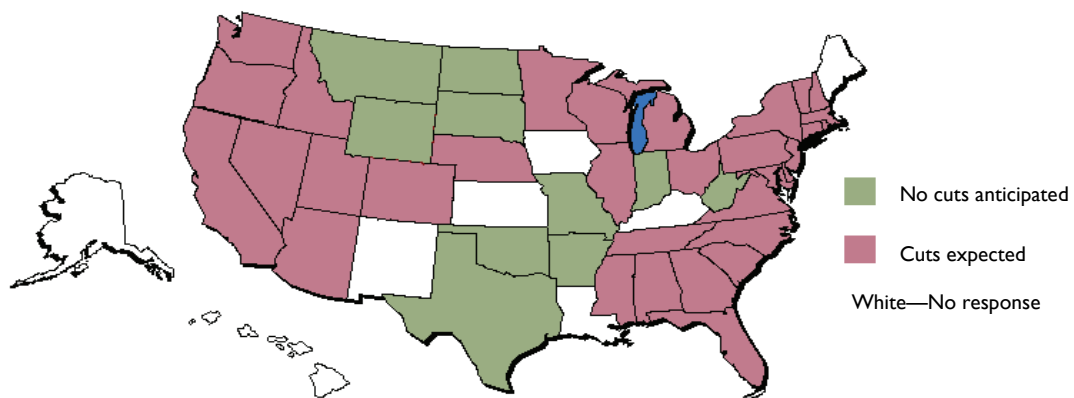
Levels of Budget Reductions



SMHAs reported receiving slightly smaller cuts to their current fiscal year than they anticipate receiving in the next two fiscal years. Of those 32 states receiving budget cuts, fiscal year 2009 reductions are averaging 4.9% with a median cut of 4.0%. Cuts range from a low of 0% (no cuts) to a high of 17.5%. The map below shows the FY2009 SMHA budget cuts by state.

Of the 32 states expecting budget cuts in FY2010, anticipated cuts average 8.2% with a median of 7.5%. Anticipated cuts range from a low of 1% to a high of 25%. Of the 13 SMHAs anticipating cuts in fiscal year 2011, anticipated cuts average 9.4% with a median of 10%. The cuts range from a low of 3% to a high of 25%.

Fiscal Year 2009 SMHA Budget Reductions



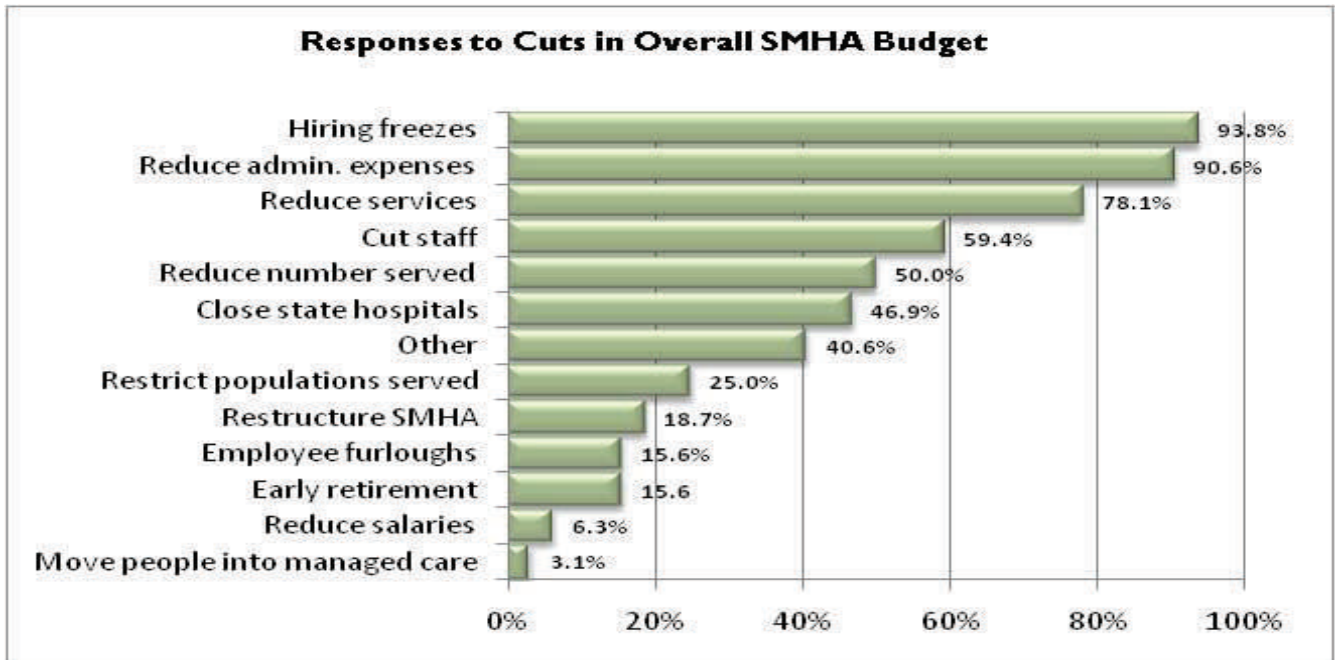
Core Strategic Goals in Managing Cuts

States were asked what their core strategic goals are in managing their budget cuts. A list of all strategies are available in Appendix B; however the most common strategies are:

- Make cuts that will have the least possible impact to clients
- Maintain essential services within existing resources
- Maintain core indigent services, and if cuts are necessary, eliminate new programs and/or underutilized programs
- First identify “waste” within the SMHA budgets before cutting any programs that affect the well-being of consumers and safety to the public
- Preserve inpatient and medically necessary services
- Make selective reductions intended to increase equity across county-based delivery systems
- Maintain program integrity by integrating mental health and substance abuse more closely and by engaging managed care tools
- Generally seek to defer new investments rather than simultaneously expand and cut
- Reduce low-value services
- Maintain community services
- Focus on mandated populations

Budget Reduction Strategies and Impact on Services

SMHAs were asked what strategies they are using to make required budget cuts. The most common approaches are: Freezing Staff Hires, Reducing Administrative Expenses, Reducing Services, Cutting Staff, Reducing the Number of People Served, and Closing State Hospitals and Wards.

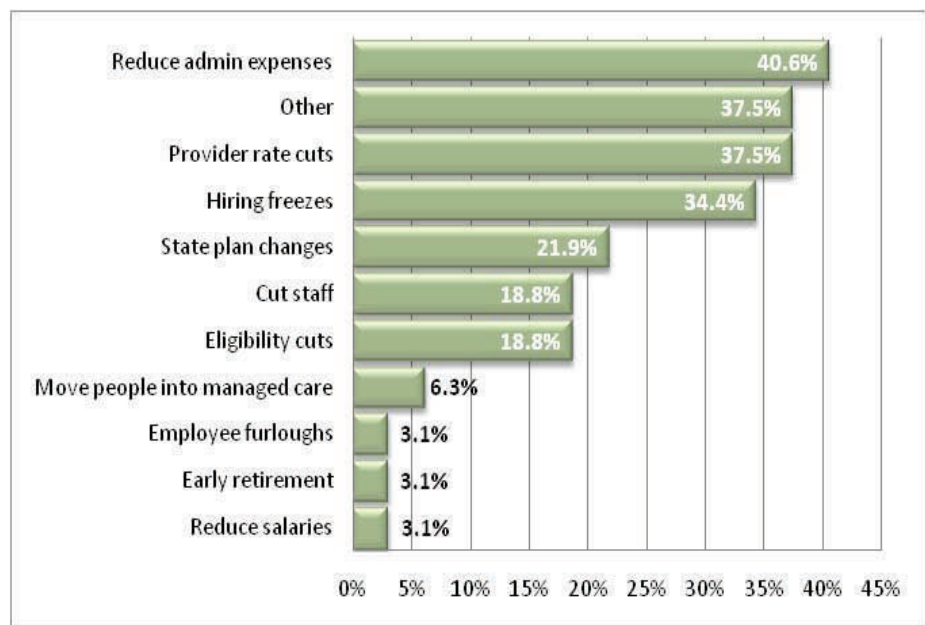


Effects of Medicaid Reductions

In addition to the SMHA receiving budget reductions, Medicaid agencies in many SMHAs are also being reduced. Of the 32 states experiencing any budget cuts in the next three fiscal years, only four states do not anticipate cuts to Medicaid. To deal with the reductions in Medicaid, states are Reducing Administrative Expenses, Cutting Provider Rates, and Conducting Hiring Freezes. Twelve states indicated there were other responses to the Medicaid Budget Cuts not listed on the survey. Those options include delaying the start of new programs, Eligibility Cuts, Creating Crisis Alternatives to Acute Medicaid Inpatient Care, Reducing Contracts with Carve Out Vendors, Increased Utilization Management, and Tightening Review of Authorization for Higher Level Services.

The budget cuts in Medicaid are impacting the states in a variety of ways. The most frequent impact occurs with the states' Medicaid Match Program, limiting funds available for mental health services. Some states are now forced to limit Medicaid coverage to the newly uninsured and are reducing provider rates.

Responses to cuts in Medicaid Budgets (Mental Health Related)

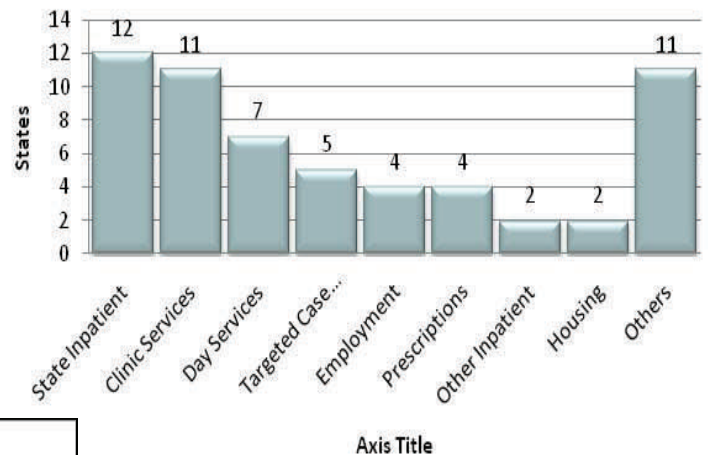


SMHA Service Cuts

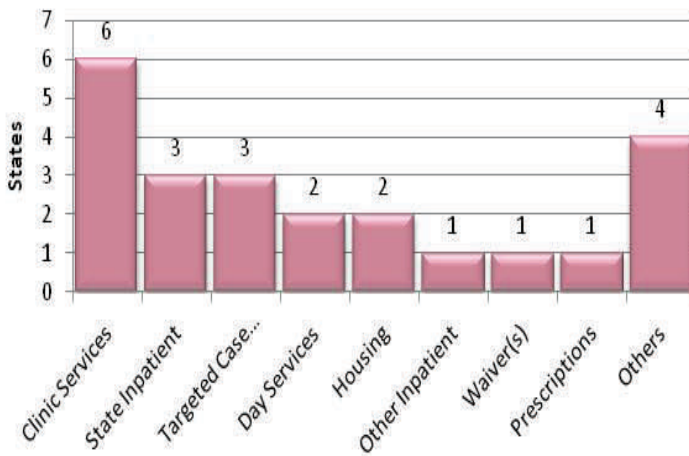
States were asked to identify the impact of the budget cuts on specific services. The most common programs receiving budget cuts are Adult State Inpatient (12 States), Clinic Services for Adults (11 States), Children State Inpatient (3 States), Clinic Services for Children (6), and Targeted Case Management for Children (3 States).

Fifteen states indicated that they are cutting programs for adults and children not listed on the survey. Other programs states identified are Community Services, Behavioral Health Special Initiative Funding for the Uninsured, Anti-Stigma Programs, Crisis Line, Peer Support Specialists and School Consultation.

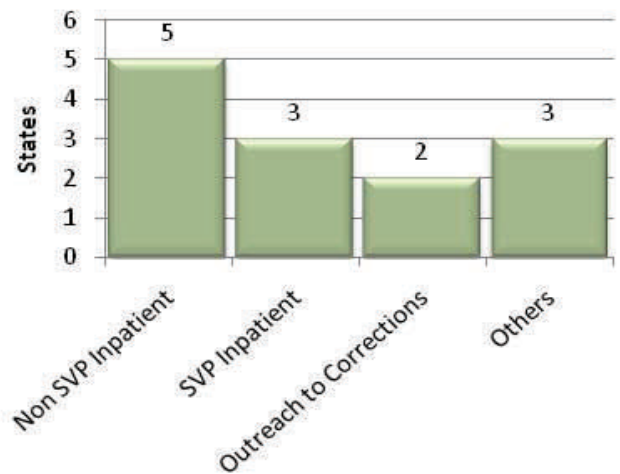
Adult Program Cuts: FY2009



Children's Program Cuts: FY2009



Forensics Program Cuts: FY2009



Roles for NASMHPD & NRI

States suggested a variety of ways NASMHPD and the NASMHPD Research Institute, Inc. can help them as they navigate these tough economic times. Some of the suggestions are listed below.

- Advocate for keeping the Medicaid moratorium permanent
- Advocate for increases in the Mental Health Block Grant
- Continue to inform about federal activities that may impact the states
- Advocate with the federal government to underline the short and long-term benefits and the cost effectiveness of behavioral health services while emphasizing that people in recovery are assets to communities
- Examine the impact of cuts and reduction strategies from a policy perspective
- Conduct a study on the relationship of budget cuts to the often disproportionate and negative impact on people with a mental illness
- Identify and share other states' experiences and strategies
- Work with CMS to develop greater Medicaid flexibility for services to individuals with a mental illness
- Explore alternative sources of funding
- Conduct a study on the cost shifts to jails and hospitals