COVID-19: ECONOMIC IMPACT ON THE PUBLIC BEHAVIORAL HEALTH SYSTEM

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April 29, 2020
AGENDA

1. Basics of public behavioral health financing
2. COVID-19 impacts
3. Early Fiscal Forecast
POPULATIONS SERVED

- All Ages
- Medi-Cal
  - Specialty Mental Health
  - Substance Use Disorder
  - EPSDT
- Also:
  - Uninsured
  - Commercially Insured
BASICS OF PUBLIC BEHAVIORAL HEALTH FINANCING
1991 Realignment

2011 Realignment

Mental Health Services Act (MHSA)

Federal Financial Participation (Medicaid aka Medi-Cal in California)

Other local funds (variable) and grants
Funding for County Behavioral Health: $9 Billion (FY 2019-20 Estimate)

Total Medi-Cal:
$105.2 billion
$23 billion GF
Covers 13 million (1 in 3) Californians

Sources: CA Governor’s 2020-21 Budget (January 2020); CA State Controller’s Office; and DHCS Medi-Cal Estimates
SOURCES OF FUNDING

- **Largest single funding source (35%): Federal Medicaid matching funds (FFP)**
  - Must be claimed and spent according to federal Medicaid rules
  - Does not pay for IMD level care
  - Crucial to county behavioral health networks

- **Second largest funding source (25%): MHSA**
  - Accounts for 1 out of every 3 Medi-Cal behavioral health dollars statewide
  - Volatile and vulnerable to changes in economic outlook
  - Must be spent in compliance with MHSA rules and requirements
  - Reserve levels are capped at 33% of CSS component
Flexible Funding for programs realigned to counties:
- Community-based mental health (MH) services
- MH services for civil commitments/conservatorships
- Institutes for Mental Disease (IMDs)
- $1.1 billion base funding

Source of Funding
- Sales Tax and Vehicle License Fee
COUNTIES (NOT THE STATE) ARE RESPONSIBLE FOR MEDI-CAL:

- Specialty Mental Health for Adults with Serious Mental Illness (SMI)
- EPSDT
- Drug Med-Cal and Substance Use Disorder services
- Guaranteed base of $1.4 billion

SOURCES OF FUNDING

- Sales Tax and Vehicle License Fee
SOURCE: MHSA

- Client and community centered
- Funds Community Services and Supports (CSS), Prevention and Early Intervention (PEI), Workforce and Education Training (WET), Capital and Innovations

- Source of Funding
  - 1% personal income tax on millionaires
 Medi-Cal
- Specialty delivery system for serious mental illness and substance use disorders
- Beneficiaries must meet state medical necessity criteria
- EPSDT entitlement for children/youth

 All Populations, regardless of insurance – obligation to serve, within resources
- Mental Health Crisis Services (5150s, LPS conservatorships)

 All Populations if dedicated funding available
- Mental Health Services Act (Prop 63)
- SAMHSA Grants (relatively small; payer of last resort)
- Public Safety Realignment (AB 109)
- Proposition 47 Grants (for criminal justice-involved)
COVID-19 IMPACTS
COVID-19 IMPACT ON FUNDING

Federal funds
- Fewer services claimed to Medi-Cal

State/local funds
- Reductions in taxes/fees dedicated to BH

Significant reductions in total available BH funds
COVID-19 IMPACTS ON FUNDING

1. **Lower federal Medi-Cal payments:** Lower Medi-Cal billable services means fewer federal dollars and a significant negative impact overall.
   
   - COVID-19 lowered volume due to: Cancelled appointments, provider staffing challenges, illness, digital divide, etc.

2. **Loss of core funding:** Main sources of funding (MHSA and Realignment) are drawn from millionaire’s tax, sales tax, and vehicle licensing fees.
   
   - *All are projected to decrease significantly* over the next 1-5 years as the U.S. and California face economic recession.

3. **Increase in Medi-Cal beneficiaries:** More Californians will qualify for Medi-Cal Behavioral Health due to job loss and increases in mental illness and substance use disorders.
   
   - New beneficiaries will not come with new funding.
4. **Increased community need for emergency crisis supports:** Broad community reliance on public behavioral health safety net due to anxiety and stress of the global pandemic and related economic and other impacts.

5. **Migration to telehealth and phone-based services:** County behavioral health has undergone a complete shift to phone and telehealth-based services where possible with no new funding invested.

6. **Alternative sites for new and existing clients:** County behavioral health must self-finance alternative settings to help with isolation, new populations, and alternatives to residential and congregate care settings.

7. **Support for providers:** Counties have invested more in trying to ensure contracted providers can weather the crisis financially so that we maintain access to services.
FISCAL FORECAST
1991 REALIGNMENT

- 10% Drop in 1991 Realignment Funding
- Counties limited primarily to the state mandated base of $1.1 billion beginning in the current Fiscal Year
2011 REALIGNMENT

- Current year:
  - $80 million decrease in sales tax
  - $92 million deferral from 2019-20 to 2020-21
- Counties limited primarily to statutory base approximately $1.4 billion with no growth
- Estimated 5-10% reduction in sales tax revenue from FY 2018-19

Combined decrease in sales tax & funding deferral

2011 Realignment Annual Funding in Millions
• Estimate a loss of $100 million due to lower revenues

• Estimated loss in current year of $300 million due to deferral

• Impact greater in current year due to loss of federal matching funds
FISCAL FORECAST FACTORS & ASSUMPTIONS

- **Key factor:** The tax filing and payment deadline for calendar year 2019 taxes has been delayed until July 15, 2020
- **Key assumption:** The total decline in estimated revenues is comparable to revenues during the Great Recession
- **Delayed impact:** The economic downturn in Calendar Year 2020 will be felt in FY 2022-23 and beyond for MHSA funding
- **Cumulative impact:** Between deferrals, current year losses, and lost revenues from move to telehealth, we estimate a total loss of $400 million - $800 million in the current year
- **Far-reaching impacts, beyond behavioral health:** The state and local budgets will both take major hits. Base funding in mental health (1991 and 2011 realignment) has in the past served to buffer mental health services in particular.
PROPOSED FISCAL SOLUTIONS

1. Ask for greater flexibility to use MHSA funds for COVID-19 response

2. Ask for $100 million in state COVID-19 emergency relief funding

3. Ask for federal matching funds for board and care facilities’ COVID-19 response

4. Adapt delivery systems to ensure client access and maximize Medi-Cal billing post COVID-19
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