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**OFFICIAL MEMORANDUM**

June 30, 2010

**TO: All Interested Parties**

**FROM: DMH Executive Team**

**SUBJECT: DMH State Fiscal Year (SFY) 2012 Budget Development Information**

This memorandum begins the SFY 2012 budget development cycle for the Department of Mental Health (DMH). Information herein provides context for developing DMH's budget request to be submitted to the Governor's Budget Office (GBO) by October 1, 2010.

**SFY 2010 AND 2011 BUDGET RECAP**

SFY 2010 was a difficult year for DMH. To balance the budget in an economy that repeatedly failed to meet projections, Governor Nixon required expenditure restrictions (withholdings) of General Revenue (GR) and Federal Budget Stabilization funding several times during the year. DMH's restrictions were as follows:

<b><u>Date</u></b>	<b><u>Amount</u></b>
July 2009	\$4,750,602
October 2009	\$6,665,066
February 2010	\$1,092,483
March 2010	\$2,032,657
April 2010	<u>\$834,236</u>
<b>TOTAL</b>	<b>\$15,375,044</b>

These restrictions were in addition to a \$47.2 million cut to DMH's SFY 2010 GR core budget.

SFY 2010 revenues were projected to decline 6.4% below SFY 2009 revenues. Current projections, as of this writing, anticipate a decline of 9.5% for SFY 2010.

Governor Nixon submitted his SFY 2011 budget in January 2010 anticipating a modest economic recovery in mid-to-late SFY 2010 in Missouri. That did not occur. By mid-March, it was clear that the Governor's budget recommendations needed to be reduced by approximately \$500 million. Working collaboratively with the Senate Appropriations, and later with the House and Senate Budget Conference Committee, the GBO and Legislature cut an additional \$12.6 million from DMH's budget below the Governor's initial budget recommendations.

DMH's SFY 2011 cumulative core cuts are as follows:

<b>SFY 2011 Core Cut Area</b>	<b>Amount</b>
Non-Medicaid (safety net) Community Services	\$12,878,000
DD Habilitation Centers – Conversion to State-Operated Waiver	\$4,017,233
Dept-wide Personal Services and Expense/Equipment Restrictions	\$3,471,821
Overtime Reduction for State Holidays and Administrative Leave	\$1,767,302
Metropolitan Psychiatric Center Ward Closure	\$1,311,122
CPS – Switch from GR to Other Funds	\$1,300,000
CPS Inpatient Redesign	\$924,958
Miscellaneous Reductions	<u>\$295,483</u>
<b>TOTAL</b>	<b>\$25,965,919</b>

Although the SFY 2011 budget process was assertive in addressing the state's continuing economic downturn, even as the SFY 2011 budget was passed in May, both the Legislature and the Governor indicated it would be necessary for the Governor to make extraordinary expenditure restrictions in state agency spending during SFY 2011. In signing the SFY 2011 appropriations bills passed by the Legislature, Governor Nixon announced an additional \$300 million in spending restrictions to balance the SFY 2011 budget. DMH's expenditure restrictions are as follows:

<b>SFY 2011 Expenditure Restrictions</b>	<b>Amount</b>
Travel Reimbursement	\$29,650
5.5% Reduction in Professional Services Expenditures	\$800,000
2% Provider Rate and Allocation Reductions	\$7,700,000
15% Reduction in Services for Veterans Project	\$45,000
2% Personal Services and Expense/Equipment Reductions at CPS and DD Facilities	\$3,600,000
5% Personal Services and Expense/Equipment Reductions at DD Regional Offices	\$600,000
Accelerate Nevada Habilitation Center Transition	\$1,300,000
Accelerate CPS Inpatient Redesign	<u>\$1,100,000</u>
<b>TOTAL</b>	<b>\$15,174,650</b>

## SFY 2012 ECONOMIC AND POLITICAL ANALYSIS

Current projections are that SFY 2012 revenues will grow approximately 2% over SFY 2011 revenue collections. This would equate to additional revenues of approximately \$135 million.

Unfortunately, the enhanced matching rate allowed by the federal government for Medicaid expenditures (enhanced FMAP) will end on December 31, 2010, requiring the state to return to its previous Medicaid matching rate. This will cost the state an additional \$600 million in SFY 2012. Further pressures on the state budget include continued growth in Medicaid caseloads and mandated obligations to the School Foundation Formula. These obligations coupled with slow economic growth will make SFY 2012 very difficult.

At the federal level, Congress continues to struggle with whether to extend the enhanced FMAP rate to states for another six months. With increasing national concern about deficit spending, extending the enhanced FMAP appears unlikely in the near future, if at all. Many believe that an extension will not pass prior to the 2010 elections, and could be unlikely afterward if the elections result in a swing to the conservative side. While the passage of a short-term enhanced FMAP extension would have the effect of easing some of the pressure in SFY 2012, it may only extend the pain into SFY 2013 and beyond since it would add only \$300 million to Missouri on a one-time basis.

**National Health Care Reform** is on the 2014 horizon, and it offers the greatest potential for parity and dramatic growth in behavioral health services for Missourians that has been seen in many years. DMH is already turning its attention to maximizing that opportunity.

No economic outlook at this point is forecasting a rapid rise in employment over the next 12 to 18 months. Some economic forecasters raise the question of a “double-dip” recession driven by continuing problems in the housing market, economic problems globally (particularly in Europe) and the deepening problems in the US public sector, particularly in state governments.

Missouri is handling its own economic downturn well compared to most states. However, Missouri’s recovery can be affected by the problems of other states and nations in this global environment. Without a significant increase in employment, Missouri’s economic picture will remain uncertain.

A possible complicating factor in Missouri’s environment is a large turnover of legislators in both the House and Senate, including major changes in legislative leadership. At this point, it is impossible to predict how these changes will impact the budget decisions of SFY 2012.

## SFY 2012 DMH BUDGET PRIORITIES

**Medicaid Caseload Growth:** The Governor’s SFY 2011 recommendations for Medicaid caseload growth were reduced by 33% during the Legislative process as part of the effort to reduce the Governor’s January budget recommendations by \$500 million. We do not know what the actual caseload growth in SFY 2011 or 2012 will be, but it could well exceed the modified funding provided in the SFY 2011 budget. If so, great budget pressure will be felt in

the form of SFY 2011 supplemental appropriation requests for caseload growth as well as expanded expectations regarding caseload growth in the regular SFY 2012 budget. DMH Medicaid caseload growth is likely to be one of a very limited number of new decision items in SFY 2012, and perhaps in the SFY 2011 supplemental process.

**Sexual Offender Treatment Services (SORTS):** Referrals from the Department of Corrections to the SORTS program continue to grow at the rate of one new treatment unit per year. While the state has avoided the construction costs of a new SORTS facility due to the Fulton State Hospital transition, increased funding for ongoing operating costs are necessary to open a new SORTS unit in SFY 2012.

**Overtime:** DMH continues to make progress in containing its growth in overtime expenditures except at Fulton State Hospital (FSH). DMH hopes to impact FSH overtime by moving approximately 170 patients from FSH to other state facilities in St. Louis, Farmington, and Kansas City during SFY 2011, although there will be overtime costs associated with preparing for the SORTS population to be transferred to FSH. It is likely that the transfer of FSH patients will increase overtime costs in the other facilities in the transition stages due to the training costs associated with preparing for new patient populations.

**Eating Disorders:** Legislation was passed last year establishing a new Eating Disorders Council that requires staffing and facilitation by DMH, along with a legislative mandate to launch a public education effort regarding eating disorders. If this legislation is signed by the Governor, DMH will require modest funding at a level of \$150,000 to \$200,000 to meet the legislative mandate.

## SUMMARY

SFY 2011 will be a year of cost containment and major system redesign. DMH is confident it can achieve both. Between now and SFY 2014, DMH expects difficult budget decisions requiring our greatest creativity to protect the fragile safety net for the people we serve as best we can.

Thank you for your understanding and patience in these difficult times.