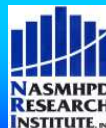


State Profile Highlights



Information from the National Association of State Mental Health Program Directors Research Institute, Inc (NRI)

No. 07-03

November 2007

FY 2005 State Mental Health Revenue and Expenditure Study Results

MAJOR FINDINGS:

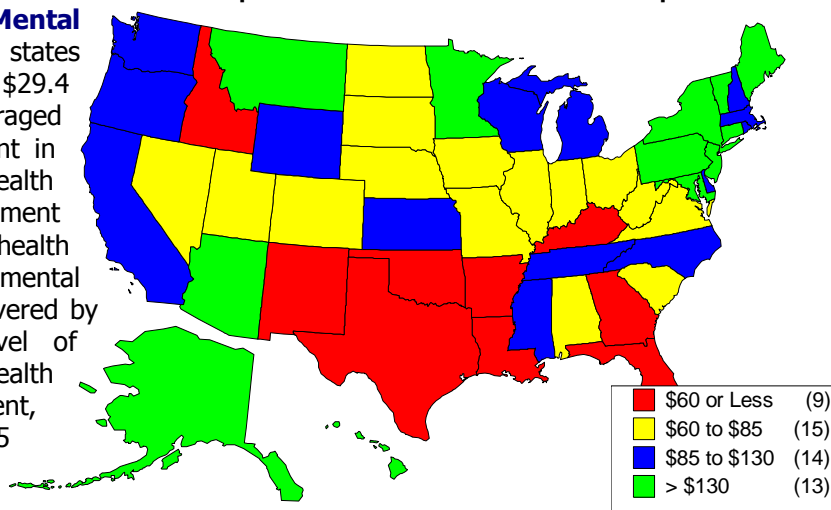
- **State Mental Health Agencies (SMHAs) expended over \$29.4 billion on mental health services in Fiscal Year 2005, an increase of 5.7% over FY 2004 and 27.9% from FY 2001.**
- **Adjusted for inflation, 28 SMHAs increased their mental health expenditures, while 23 SMHAs experienced a decline in expenditures from FY'01 to FY'05**
- **SMHAs received most of their revenues (63%) from state and local government taxes.**
- **Medicaid funding was the largest source of revenue increase, rising over 10% per year between FY'01 and FY'05.**
- **Community mental health expenditures increased by 10.1% per year since FY'01, and now represent over 70% of total SMHA expenditures.**

Mental Health Expenditures Controlled by State Mental Health Agencies:

In state Fiscal Year 2005, the 50 states and the District of Columbia collectively expended over \$29.4 billion to provide mental health services. States averaged mental health expenditures of \$100 per every resident in their state, and SMHA expenditures for mental health averaged almost 2 percent of total state government expenditures. Due to differences in how state mental health agencies are organized and structured, the types of mental health services offered and the priority populations covered by states, there is considerable variation in the level of expenditures among the states. State mental health expenditures ranged from less than \$60 per state resident, to over \$200 per resident in several states. In FY'05 SMHAs reported they provided mental health services to almost 6 million (CMHS 2005 URS data) persons.

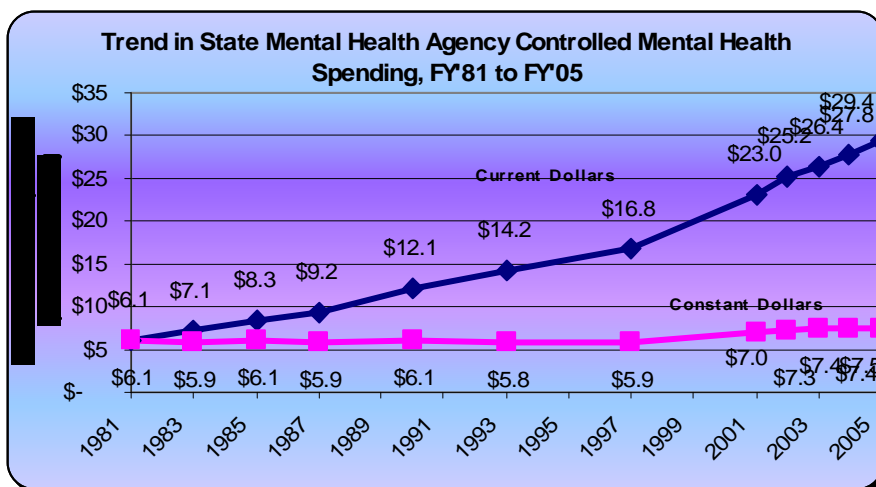
The average expenditure per mental health service recipient was \$4,738 and the median was \$4,074 per client served.

FY'05 Per Capita SMHA-Controlled Mental Health Expenditures



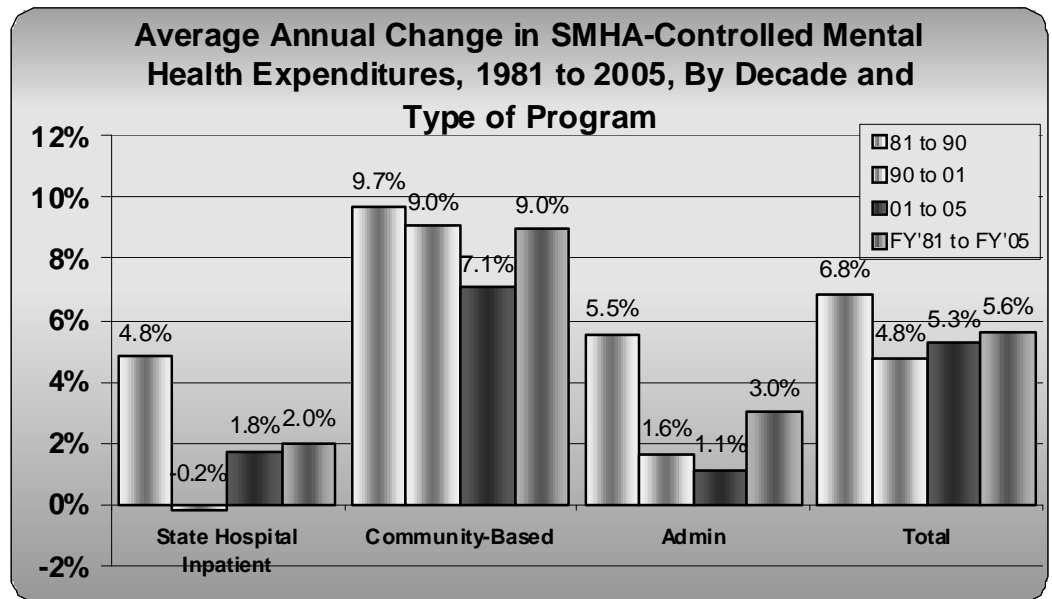
Change in SMHA-Controlled Expenditures Over Time: From Fiscal Year 2001 to Fiscal Year 2005, SMHA-controlled expenditures for mental health services increased from \$23.1 billion to \$29.4 billion, an increase of 27.9% (or an average annual increase of 6.3% per year). Adjusted for inflation, expenditures increased by only 8% (or an average annual increase of 1.9% per year). From FY'01 to FY'05, 46 SMHAs increased mental health expenditures, while 5 decreased their expenditures. Over the last year, (from FY'04 to FY'05), 46 SMHAs reported an increase in total mental health expenditures, while 5 states reported a decline in mental health expenditures. Controlling for inflation, total SMHA-controlled expenditures failed to keep pace with inflation since FY'01 in 23 states, while in 28 states the expenditures surpassed inflation.

From FY'01 to FY'05 expenditures for **community mental health services** increased by 8.2% per year, while **state psychiatric hospital-inpatient** expenditures increased 2.8% per year over the four years. When controlled for inflation and population growth, community mental health expenditures increased 2.6% per year, while state psychiatric hospitals declined by 2.5% per year.



From FY'01 to FY'05, 46 SMHAs increased their expenditures on community mental health services, while 5 SMHAs decreased these expenditures. Fewer SMHAs, 40, increased their psychiatric-inpatient hospital expenditures, while 11 decreased their expenditures. Since FY'01, inflation adjusted expenditures for community mental health increased in 32 states, while they declined in 19 states. Inflation adjusted State Psychiatric hospital expenditures declined in 36 states and increased in only 15 states.

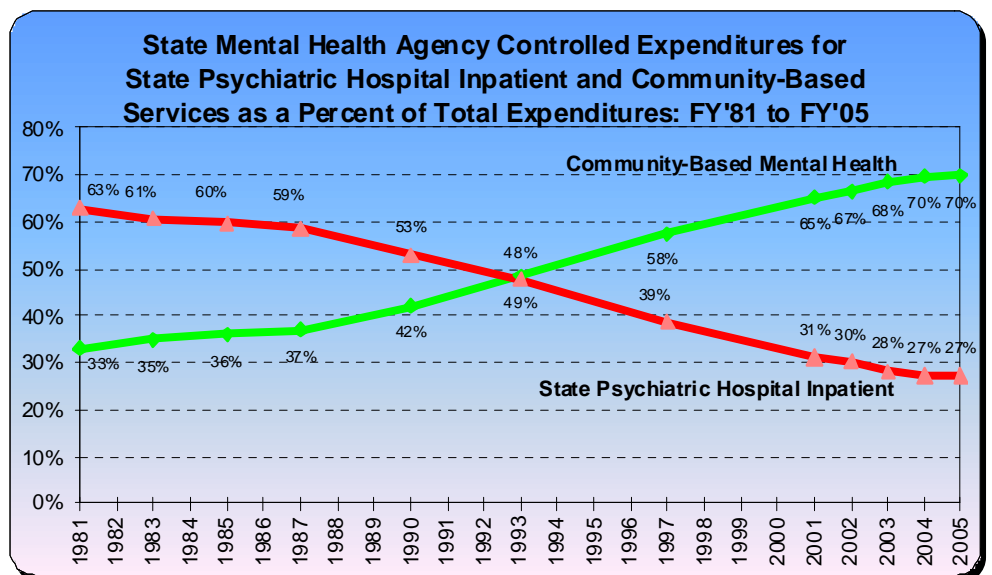
Over the twenty-four year period from FY 1981 to 2005, SMHA-controlled expenditures increased from \$6.1 billion to \$29.4 billion, an increase of 382% (an average annual rate of 6.8% per year). However, when SMHA expenditures are adjusted for inflation, total SMHA-controlled expenditures increased by only 23.6% over the last 24 years (an annualized increase of 0.9% per year). When SMHA expenditures are adjusted for both inflation and population growth, SMHA expenditures declined slightly (down 4.6 percent over the 24 years or (0.2% per year).



From FY'81 to FY'05, **Community mental health expenditures**, increased from \$2 billion to over \$20.5 billion, an increase of 916% (an average increase of 10.1% per year). When community mental health expenditures are adjusted for population growth and inflation, they increased by 101% (an average annual increase of 3% per year). During this same 25 year time interval, **state psychiatric hospital-inpatient** expenditures increased from \$3.8 billion to \$8 billion, an increase of 108.5% (an average annual increase of 3.1% per year). When state psychiatric hospital-inpatient expenditures are adjusted for both population growth and inflation, expenditures actually decreased by 58.7%, (an average annual decrease of 3.6% per year).

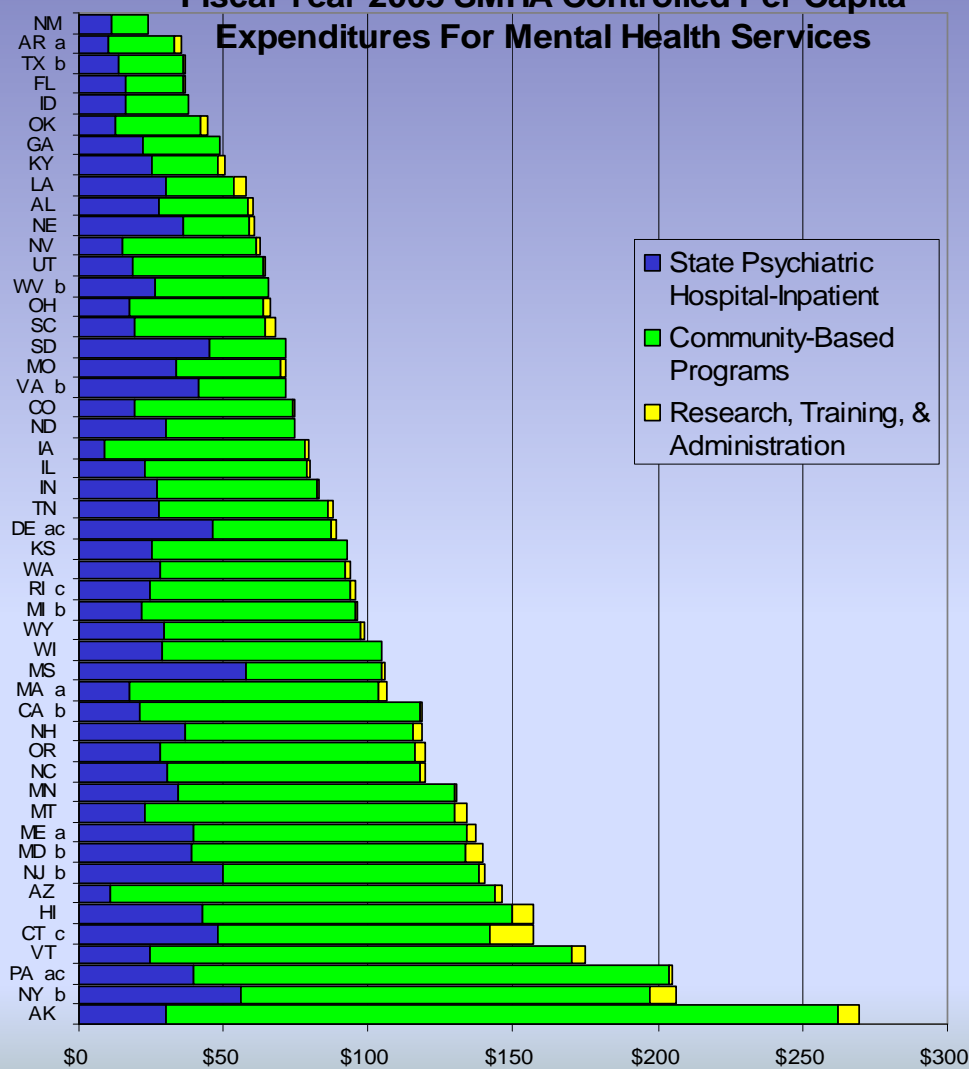
Shift from State Psychiatric Hospital Based Services to Community-Based Mental Health:

Over the last quarter century, SMHAs have shifted their treatment paradigm to focus on providing comprehensive mental health services in the community. As a result, community mental health expenditures have grown much faster than state psychiatric hospital expenditures. In FY'05, community-mental health expenditures accounted for 70% of total SMHA-controlled expenditures and state psychiatric hospital-inpatient expenditures were 27%. This is a major shift from FY'81, when community-mental health expenditures accounted for 33% of SMHA expenditures and state psychiatric hospitals were 63% of expenditures.



This report is the latest in a series by NRI that document the historical trends in SMHA mental health expenditures over the last 25 years. The report focuses on the actual expenditures and funding sources controlled by SMHAs that were used to fund mental health services. A report on the study methodology is available on the NRI website. Additional detailed tables are available on the NRI's website at: <http://www.nri-inc.org/projects/Profiles/REQ4.cfm>

Fiscal Year 2005 SMHA-Controlled Per Capita Expenditures For Mental Health Services



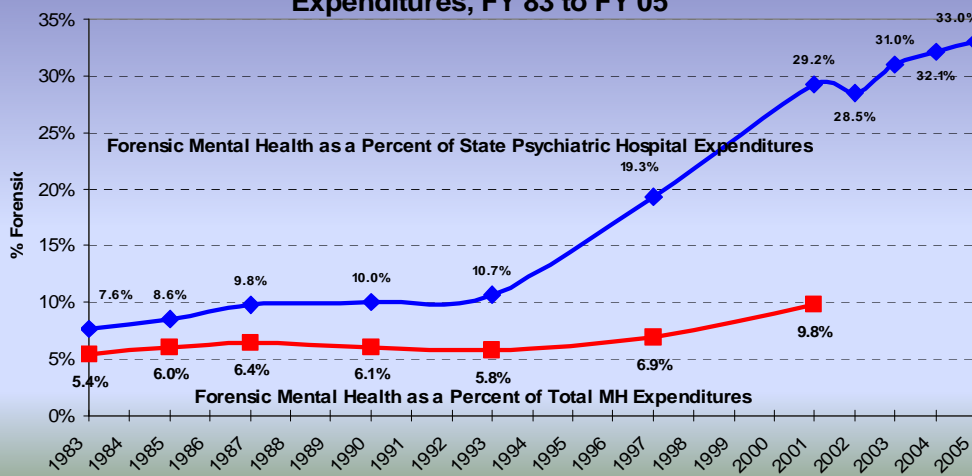
a = Medicaid Revenues for Community Programs are not included in SMHA-Controlled Expenditures
 b = SMHA-Controlled Expenditures include funds for mental health services in jails or prisons.
 c = Children's Mental Health Expenditures are not included in SMHA-Controlled Expenditures

Variations in SMHA Expenditures: The 29.4 billion in SMHA-controlled expenditures in FY'05 amounts to \$99.55 per every civilian resident of the United States. The median state – the point where 25 states were above and 25 states were below – was \$89.19. There was wide variation among states in their per capita expenditures (\$24.23 in New Mexico to \$269.64 in Alaska).

SMHAs also vary widely in the distribution of their mental health expenditures between community based services and state psychiatric hospitals. While the national average was 70% of SMHA-controlled funds spent on community mental health services ranged from 91% in (Arizona) to 37% (South Dakota).

Forensic and Sex Offender Service Expenditures in State Psychiatric Hospitals: In FY'05, SMHAs expended \$2.3 billion of their state hospital expenditures to services for forensic status clients (30% of state hospital inpatient expenditures) and an additional \$257 million for sex offender services (3.3% of state hospital-inpatient expenditures). SMHAs also vary regarding the amount of their psychiatric hospital expenditures that are devoted to Forensic status clients and to sex offender services, from a few states having no forensic service responsibilities, to 8 states expending over half (50%) of their state hospital expenditures on forensic and sex offender clients.

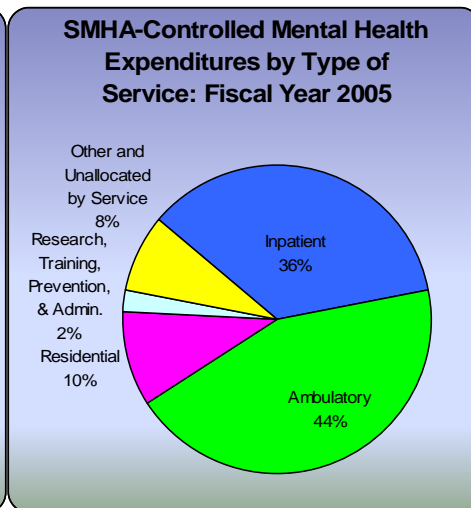
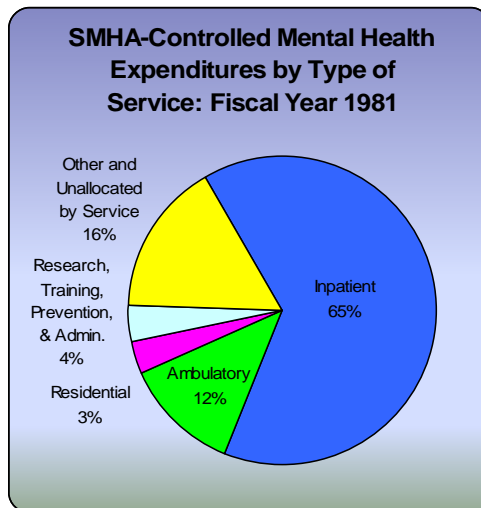
SMHA-Controlled Forensic and Sex Offender Mental Health Expenditures, FY'83 to FY'05



Since 1983, Forensic and Sex Offender services in state psychiatric hospitals have increased from 7.6% (in FY'83) of state hospital inpatient spending to 10% in FY'90 and 33% in FY'05. The growth in expenditures for forensic and sex offender services appears to be continuing as several states have recently expanded their sexual offender treatment programs in state psychiatric hospitals.

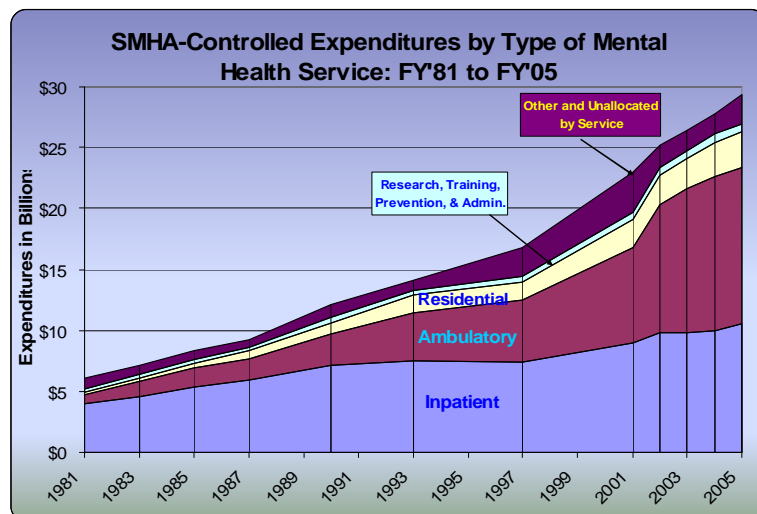
SMHA-Controlled Expenditures by Type of Mental Health Service:

States expended the majority of their mental health services monies on community-based Ambulatory (less than 24 hour) services, a category that includes individual and group outpatient services, partial day treatment, medication maintenance visits, and a host of other ambulatory services (including various evidence-based practices such as Assertive Community Treatment, Supported Employment, Integrated Dual Diagnosis Treatment). In FY'05, SMHAs reported they expended \$12.8 billion on Ambulatory services (44%) of total SMHA expenditures. Almost all (97.5%) of the Ambulatory services were provided by community-based providers, but state psychiatric hospitals provided \$339 million worth of Ambulatory services in 2005.



Psychiatric Inpatient expenditures were the second largest type of service reported by SMHAs. In FY'05, 10.5 billion (36% of total SMHA expenditures) was expended on inpatient services. Although, the majority of these inpatient services were provided in state psychiatric hospitals (\$8 billion), a substantial \$2.5 billion (23.5% of inpatient expenditures) was provided by community-based providers including Community Mental Health Centers (CMHCs) and general hospitals.

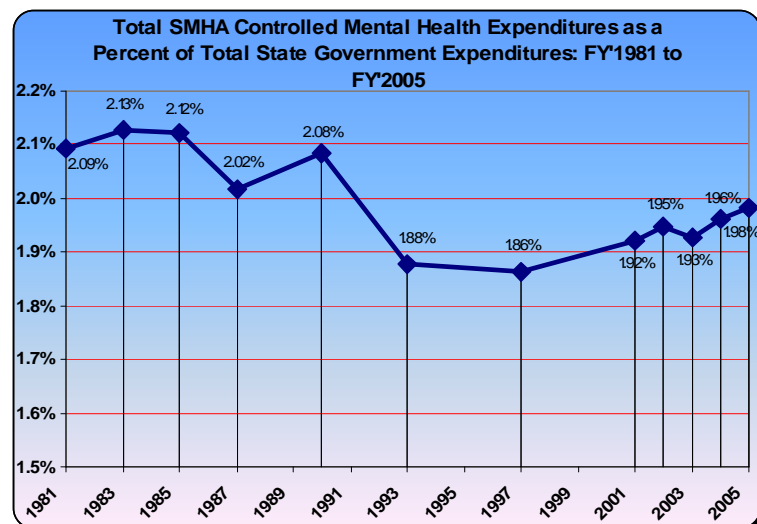
Residential services accounted for \$3 billion of SMHA expenditures in FY'05 (10% of total SMHA expenditures). Although, the majority of residential services were provided by community-based providers (\$2.66 billion), while \$295 million were provided at state psychiatric hospitals. In FY'05, \$2.4 billion (8%) in SMHA expenditures were reported as either an "other" type of service or the SMHA was unable to allocate expenditures by service type.



Since FY'81, SMHAs have steadily shifted from providing inpatient services towards a system that provides more community-based Ambulatory (less-than-24-hour) services. In FY'81, only 12% of SMHA expenditures were reported in the Less Than 24 hour category, while 65% of total expenditures were reported for "Inpatient" services.

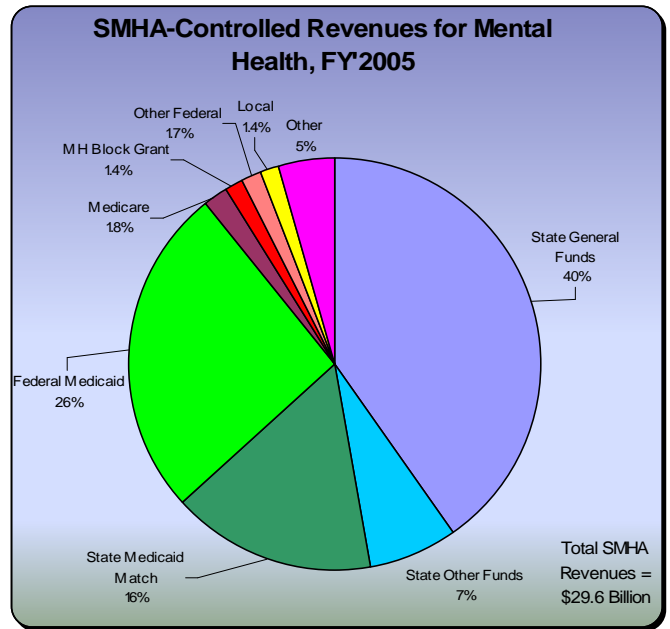
SMHA-Controlled Mental Health Spending and Total State Government Expenditures:

Over the last quarter century, total state government expenditures for all purposes have grown at a faster rate than SMHA-controlled expenditures. According to the U.S. Census Bureau, in FY'81, state governments expended \$291.5 billion of which 2.09% was for mental health services that SMHAs controlled. Twenty-four years later, SMHA-controlled expenditures for mental health were 1.98% of total state government expenditures. If SMHAs had received, in FY'05, the same percentage of total state government expenditures, their expenditures would be \$1.4 billion, or over 5% higher than reported for FY'05. However, for the last 15 years, SMHA expenditures as a share of total state government expenditures have increased slightly. This growth is largely due to the increase in SMHA revenues



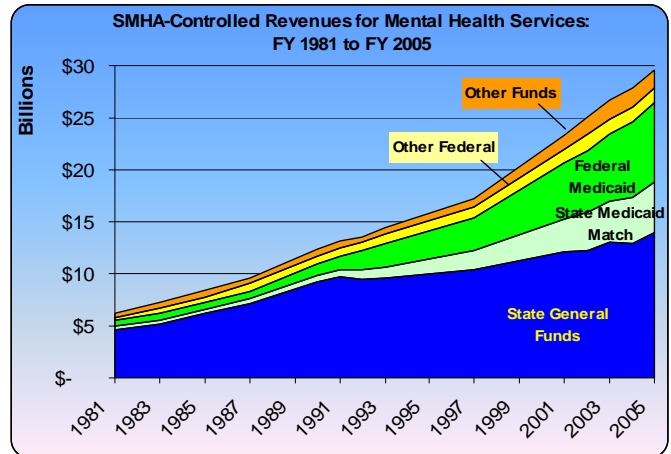
from Medicaid. State general fund expenditures for mental health have increased more slowly than state general fund expenditures for other state services over this time period.

State Tax Dollars Remain the Major Source of Funding of SMHAs: In FY'05, 63% of SMHA funding came from state government sources. This is a slight decline from 67% in FY'01. In FY'05, state tax dollars accounted for \$18.8 billion of funding for SMHA mental health services. These funding sources included State General and Special funds of over \$13.9 billion, and state Medicaid match of almost \$4.8 billion. The federal government was the second largest funder of SMHA services, with FY'05 dollars totaling \$9 billion (31% of total SMHA funding). The majority of federal revenues came from Medicaid (\$7.6 billion), followed by Medicare (\$.54 billion), Other Federal Funds (\$.498 billion), and the Community Mental Health Block Grant (\$.40 billion). Local Governments contributed \$407 million (1%) and Other funds contributed the remaining \$1.3 billion. Total Medicaid funds (State Match and Federal Share) received by SMHA-funded

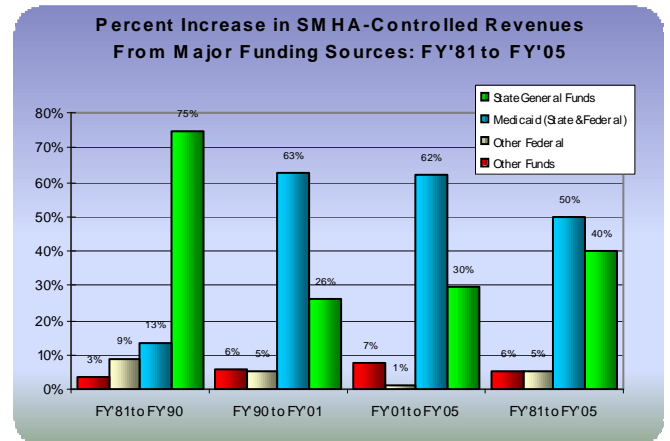


programs represented \$12.5 billion (42%) of SMHA resources.

SMHA Revenue Trends Over Time: During the first half of this decade, many state governments encountered major budget shortages and total state government spending slowed greatly. During this time, total SMHA-controlled revenues for mental health services increased by 6.3% per year from FY'01 to FY'05. Medicaid funding (federal and state match) increased 10% per year to \$12.5 billion, representing a slower increase than the prior decade (FY'90 to FY'01 increased an average of 16% per year.) From FY'81 to FY'05, State General Funds averaged an increase of 4.7% per year, while Medicaid grew an average of 11.8%. Other federal funds increased 7.5% per year over this time period.



As a result of the different rates of growth in funding, most of the new funds available for SMHA funded services have come from Medicaid. From FY'01 to FY'05, 62% of new SMHA funds were from Medicaid, while 30% of new SMHA funds were derived from State General Revenues to the SMHA. Over the longer time period from FY'81 to FY'05, half (50%) of all new funds were from Medicaid, while State General Funds were the source of 40% of new funds.



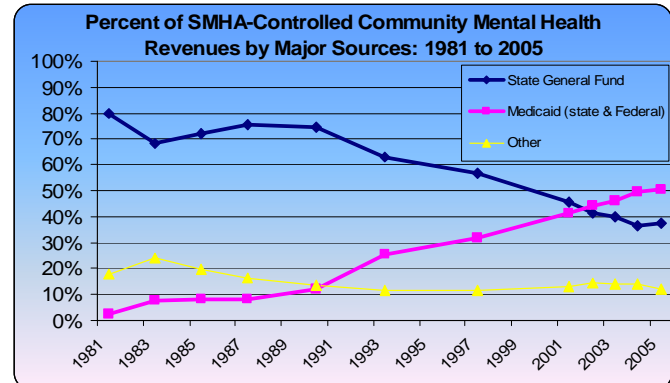
Most of the growth of Medicaid revenues for mental health was used to fund community mental health services. From FY'81 to FY'05, Medicaid funds for community mental health grew an average of 25%

per year.

As a result, Medicaid (state and federal shares combined) paid for \$10 billion for the SMHA-controlled community mental health spending and represented half (50%) of all funds.

For state psychiatric hospitals, Medicaid funds grew at a much slower (4.5% per year annual rate) and now provide \$2.3 billion in funding for state psychiatric hospitals (26% of state psychiatric hospital funding).

Copies of this report, a PowerPoint slide show, and Report Data Tables will be available at the NRI's website at: <http://www.nri-inc.org/RevExp/remain.htm>



FY'2005 SMHA-Controlled Per Capita Mental Health Expenditures, By Region

