

Behavioral Health and the COVID-19 Budget Crunch

A COVID-19 budget crunch is coming, but what will it look like? The Great Recession significantly reduced government revenue and expenditures; behavioral health budgets were cut. But those cuts were blunted by the Affordable Care Act (ACA) and the American Recovery and Reinvestment Act (ARRA). Current projections suggest the COVID-19 economic downturn will hit government revenue harder than the Great Recession. Reductions in government expenditures are likely to follow, and cuts to behavioral health services may be deep this time without ACA- and ARRA-like provisions. This brief examines the equivalent fiscal elements of the Great Recession to explore the potential effects of the COVID-19 economic downturn on behavioral health services.

BEHAVIORAL HEALTH AND THE COVID-19 BUDGET CRUNCH

Reductions in behavioral health services would be particularly devastating now. The COVID-19 pandemic has led to elevated rates of adverse mental health outcomes, substance use, and suicidal ideation.¹ Provisional data also shows that fatal overdoses have been rising again since 2019.² Yet so far, unlike in the Great Recession, federal stimulus funds have not been directed to supplement state and local revenues (See Figure 1). In their

absence, many legislatures are already considering spending cuts, including to behavioral health.³

BEHAVIORAL HEALTH FINANCING

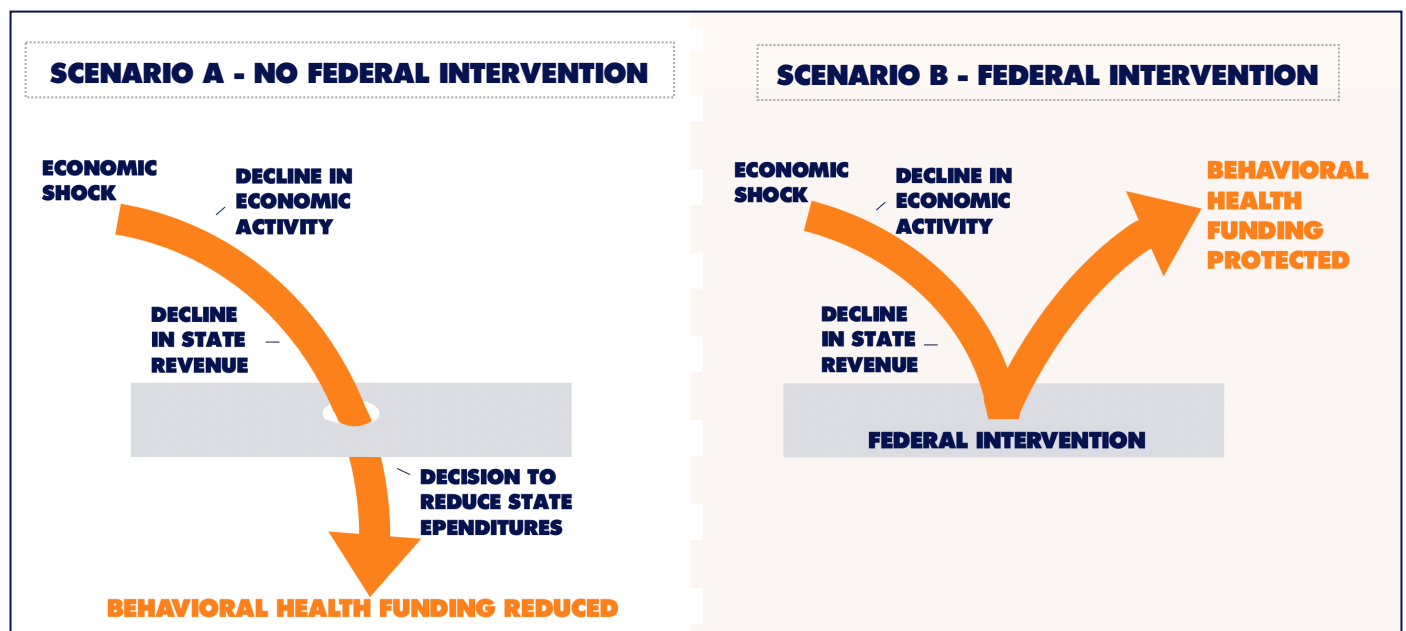
Behavioral health financing is complex. It is funded through a variety of mandatory and discretionary federal, state, and local government programs as well as private payers. Though private insurance has taken a larger role since the passage of the ACA, as of 2015, federal, state, and local governments still funded 57% of substance use disorder (SUD)

treatment services and 58% of mental health treatment, with Medicaid as the single largest payer.⁴ Substance use prevention is funded primarily by the Federal Government.⁵ State and local governments provide additional prevention funding, but amounts vary significantly by state.

THE UPCOMING GOVERNMENT BUDGET CRUNCH

The outsized role of public funding for behavioral health leaves services particularly vulnerable to government funding decisions. All

FIGURE 1. FEDERAL AID TO STATES CAN PROTECT BEHAVIORAL HEALTH FUNDING

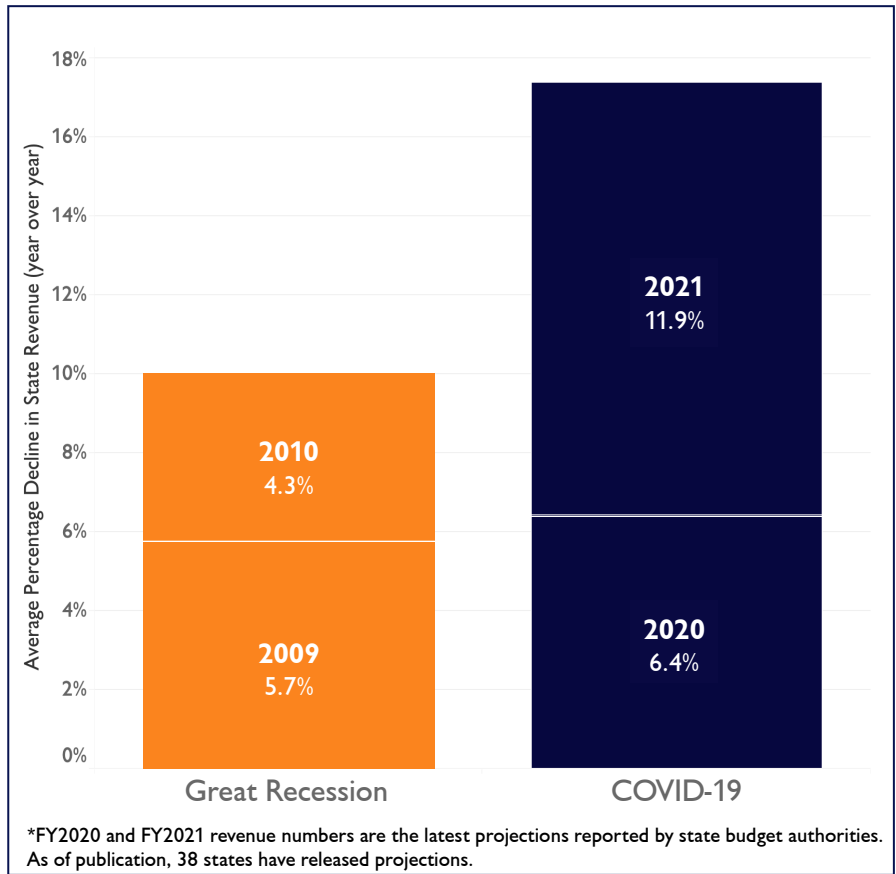


38 states that have released their FY2020 or FY2021 revenue projections estimate significant reductions from their last pre-COVID-19 fiscal year, with 25 states estimating that FY2021 revenue will decline by at least 10%.⁶ As Figure 2 shows, state revenue losses after COVID-19 are projected to be worse than those after the Great Recession. As 49 states have balanced budget requirements, states will reduce their budgets if alternate revenue is not obtained.⁷ Revenue will likely fall significantly in many localities as well.⁸ Meanwhile, due to reduced revenue and pandemic aid, the federal deficit is estimated to reach \$3.7 trillion for FY2020, up from \$984 billion for FY2019.⁹ Although there are no federal balanced budget requirements, political pressure may also lead to federal cuts in the future. This is doubly important because the Federal Government funds many state and local governments activities, which is often counted as revenue by those governments.

LESSONS FROM THE GREAT RECESSION

In the aftermath of the Great Recession (2007-2009), total state revenue declined by 5.7% in FY2009 and another 4.3% in FY2010.¹⁰ Total local revenue declined by 5-6% by FY2012.¹¹ These declines would have been even greater if not for additional federal funding supplementing state and local revenues. Federal revenue declined by almost 17% from FY2008 to FY2009 and the federal deficit increased from \$459 billion in FY2008 to \$1.4 trillion in FY2009.¹² Responding to these reductions, governments made

FIGURE 2. DECLINES IN STATE REVENUE*



significant budget cuts across spending categories, including to behavioral health. Federal cuts were exacerbated by long-term budget sequestration provisions enacted in 2011 to address the deficit. Only unique circumstances helped shelter behavioral health from catastrophic cuts.

In the Great Recession, Medicaid and Medicare were not cut at the federal level—though cuts were debated extensively. Therefore, federal spending for substance use and mental health treatment services did not significantly decline. In fact, federal funding increased due to the ACA’s Medicaid expansion and the ARRA’s Medicaid fiscal relief provisions. Still, 40 states reduced

their overall Medicaid expenditures from 2009 to 2011. Behavioral health was only spared because increased federal Medicaid funding more than covered state reductions in all but three states.¹³ Outside of Medicaid, by FY2011, 32 states reduced funding for mental health services by an average of 7.6% below FY2007 levels.¹⁴ Federal funding for substance use treatment outside of Medicare and Medicaid declined by 0.8% from FY2008 to FY2009, while federal funding for behavioral health-related law enforcement activities declined by 4.1%.¹⁵ Federal substance use prevention spending declined 18.4% over one year and continued declining through FY2015 due to sequestration.¹⁶

CONCLUSION

The COVID-19 economic downturn is well underway. In the Great Recession, government revenue declined precipitously, leading to major cuts in spending. Behavioral health was cut. It was spared potentially catastrophic cuts only by the ARRA's Medicaid provisions and the ACA. The current economic downturn appears larger than before. Reductions in government revenue are inevitable. Yet so far, no federal interventions have supplemented state and local revenue or shielded behavioral health. This time, the cuts could be catastrophic and could span many years.¹⁷

Behavioral health funding is at risk just as it is most needed. The realities of the pandemic have only heightened demand for substance use and mental health services—and signs point to a resurging opioid epidemic. Protecting behavioral health care would require government action at the state and local level but also at the federal level – like the Medicaid funding provided under the ARRA. Without intervention, these essential services may not be available when Americans need them the most.

NOTES:

¹ Centers for Disease Control and Prevention (2020). Mental Health, Substance Use, and Suicidal Ideation During the COVID-19 Pandemic – United States, June 24–30, 2020. Morbidity and Mortality Weekly Report 69(32)

² National Center for Health Statistics (2020). Provisional Drug Overdose Death Counts

³ Sokolow, A. (July 16, 2020). Stat News. Opioid overdoses have skyrocketed amid the coronavirus, but states are nevertheless slashing addiction treatment program budgets

⁴ Substance Abuse and Mental Health Services Administration (2019). Behavioral Health Spending & Use Accounts, 2006-2015

⁵ Office of National Drug Control Policy (2020). National Drug Control Strategy: FY2021 Budget and Performance Summary

⁶ National Conference of State Legislatures (2020). Coronavirus (COVID-19): Revised State Revenue Projections.

⁷ National Public Radio (August 3, 2020). Special Series: COVID-19 Throws State Budgets Into Crisis

⁸ Office of the New York State Comptroller (2020). Under Pressure: Local Government Revenue Challenges During the COVID-19 Pandemic

⁹ Bipartisan Policy Center (2020). Deficit Tracker

¹⁰ National Conference of State Legislatures (2013). "Weakcovery": State General Fund Revenues, Economic Downturns & Recoveries

¹¹ Lincoln Institute of Land Policy (2014). Local Government Finances During and After the Great Recession

¹² Congressional Budget Office (n/a). Budget and Economic Data. Available at <https://www.cbo.gov/data/budget-economic-data#2>

¹³ Council of State Governments (2012). Medicaid Spending: States Face Budget Dilemma After ARRA Bailout

¹⁴ National Alliance on Mental Illness (2011). State Mental Health Cuts: A National Crisis

¹⁵ Office of National Drug Control Policy (2020). National Drug Control Strategy: FY2017 Budget and Performance Summary

¹⁶ Office of National Drug Control Policy (2020). National Drug Control Strategy: FY2017 Budget and Performance Summary

¹⁷ Smialek, J. et al (August 14, 2020). State and Local Budget Pain Looms Over Economy's Future. The New York Times



This Info Brief is a publication of Carnevale Associates, LLC. Carnevale Associates brings strategic consulting solutions to governments, organizations, and communities as they confront the policy and program challenges of substance use, behavioral health, and criminal justice.

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