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CENTER FOR PUBLIC POLICY RESEARCH ASSESSES THREE KEY COMPONENTS OF STATE'S MENTAL HEALTH REFORM STRATEGY

A decade ago, the N.C. General Assembly passed mental health reform legislation in response to a U.S. Supreme Court decision. That decision required all states to serve patients with mental disabilities in the least restrictive setting possible – in communities rather than state institutions such as psychiatric hospitals. As part of its in-depth study of the state's mental health system, the N.C. Center for Public Policy Research has just released an evaluation of the pros and cons of key components of the state's current mental health strategy.

"The state has sailed a zigzag course in mental health policy since 2001," says Mebane Rash, an attorney and editor of the Center's journal, *North Carolina Insight*. The state built up a Community Support Program and then eliminated it. It abolished area mental health authorities and replaced them with local mental health management entities (LMEs). It increased funding for the Division of Mental Health from $581 million in 2001-02 to $743 million in 2008-09 and then reduced it to $705 million in 2010-11. "The key to building a solid mental health system is settling on a strategy, implementing it, evaluating it, and funding it. This year will be a crucial test in staying the course," says Rash.

Pros and Cons of Three Mental Health Policy Changes

The state now is implementing three important policy changes intended to build a stronger system of mental health care: (1) the federal Medicaid Innovations Waiver; (2) the creation of large providers of services called CABHAs (Critical Access Behavioral Health Agencies); and (3) three-way contracts between the state, local mental health management entities, and local hospitals to buy bed space for mentally ill patients in crisis.

(1) The Federal Medicaid Innovations Waiver

Medicaid is the largest funder of mental health services both nationally and in North Carolina. Medicaid is the state-run federal program providing health insurance for individuals with low incomes, long-term care for the elderly, and services for persons with disabilities. The federal government *mandates* that states provide 17 basic Medicaid services, including hospital services, physician services, and nursing home services. North Carolina also offers 24 *optional* Medicaid services allowed by the federal government, including mental health services, hospice care, physical therapy, and prescription drug coverage. These optional mental health services include outpatient prescription drugs, inpatient psychiatric care for those under 21, and personal care services that enable people to live in the community rather than in more expensive institutions.

During the economic downturn, the federal government paid an extra part of North Carolina's share of Medicaid expenses. Normally, the federal government pays 65 percent and North Carolina pays 35 percent. But, thanks to federal economic stimulus funds, North Carolina has been paying only 25 percent of Medicaid costs over the last 2½ years. The federal government is reducing this extra support in the first half of 2011 and will end it on June 30, 2011.

In an effort to save money in tight budget times, North Carolina has been approved by the federal government for a Medicaid Innovations Waiver to provide mental health services. The waiver allows the state to limit consumer choice, provide managed care, and provide less expensive home- and community-based services instead of care in state institutions. The waiver eventually will apply to all consumers of mental health, developmental disability, and substance abuse services in North Carolina that are funded by Medicaid.

Piedmont Behavioral Healthcare in Concord is a local mental health management (LME) that has been operating under this type of waiver since 2005. The state's plan is to slowly implement this waiver statewide. LMEs operating under the waiver will be paid a designated rate for each person served each month.

There are pros and cons to implementing the federal Medicaid Waiver statewide. On one hand, it has the advantage of allowing the state to use Medicaid and state funds more effectively, giving them the ability to predict and control costs. It also may improve the quality of services for consumers because waivers give LMEs the flexibility to pick providers and set rates. And, it encourages better use of data because sophisticated management and computer expertise are needed to make this type of waiver work.

On the other hand, those with developmental disabilities have concerns about waiting lists and the $135,000 annual cap on services per person. And, under the waiver model, LMEs will assume the risk of managing the delivery of services. Adequate reserves will need to be maintained in case expenses exceed projections.

(2) CABHAs: Critical Access Behavioral Health Agencies

The N.C. Department of Health and Human Services has decided that Critical Access Behavioral Health Agencies, or CABHAs, will be the new comprehensive providers of mental health services in the state. These CABHAs may be for-profits, nonprofits, or public agencies, but they have to provide three core mental health services – comprehensive clinical assessment, medication management, and outpatient therapy. So far, 190 agencies have been approved as CABHAs.

The advantages of the CABHA approach include making sure that appropriate medical and clinical treatments are available and that ineffective or unwarranted services are not provided. But, critics worry about consumer choice if dissatisfaction arises with the services provided by the CABHA in their county, especially in rural areas. And, many small providers already have been forced out of business.

(3) Three-Way Contracts for Crisis Beds in Local Hospitals

Three-way contracts between the N.C. Department of Health and Human Services, local mental health management entities, and local hospitals let the state purchase bed space in local hospitals to provide short-term inpatient care for mental health patients in crisis. This gives consumers who need inpatient treatment an alternative to the state psychiatric hospitals. The purpose of the contracts is to build the capacity of local hospitals to handle short-term crises.

The Center found that the three-way contracts have been a qualified success so far. With total funding of more than $29 million each year, the contracts have succeeded in expanding inpatient capacity at local hospitals – 121 beds now have been purchased. Readmission rates for people served through the three-way contracts are lower than readmission rates for those served in state hospitals. And, short-term admissions to state hospitals have dropped as the local program has expanded.

However, certain unresolved issues may undermine the long-term effectiveness of the three-way contracts. Local hospital workers will need more specialized training in dealing with mental health issues. And, these beds are harder to purchase in rural areas. Also, the payments by the state to the local hospitals have not always been timely because of the state's cash flow problems.

How the State Budget Shortfall Affects Mental Health Policy

The success of these three policy shifts depends in part on stable sources of funding, but mental health funding has been on a roller coaster ride during the economic downturn. Funds for North Carolina's public mental health system come from Medicaid, state appropriations, county funds, and other sources. In Fiscal Year 2008-09 in North Carolina, $3.3 billion dollars was spent on mental health services with 69 percent of those dollars from Medicaid and 21 percent from state appropriations.

However, the state had a budget shortfall of $4.6 billion in FY 2009-10 and another shortfall of $1.2 billion in the current fiscal year. In 2009-10, the Division of Mental Health's budget was cut to $664 million, a 19 percent cut.

In the current 2010-11 fiscal year, the state restored $40 million in funding for community services administered through the LMEs. But that was offset by cuts to the Division of Medical Assistance, which pays for a lot of mental health services through the Medicaid program in North Carolina. To save $41 million, the legislature required that Division to lower rates paid to providers and provide fewer services to consumers. To save an additional $7.7 million, independent assessments were required for some mental health services paid for with Medicaid funds. The result was fewer services for consumers. And, to save an additional $51 million, personal care services will now be provided at home only to those individuals at the greatest risk of being sent to expensive institutions.

Governor Perdue's proposed budget for FY 2011-12 both adds and subtracts money for mental health services. She proposes to save $16 million in Medicaid expenses from both mandatory and optional Medicaid services. If the cost savings are not achieved, then the Governor's budget indicates that some optional Medicaid services may be eliminated. She also hopes to save $16 million by cracking down on Medicaid fraud and waste. On the plus side, she proposes an additional $75 million for the Mental Health Trust Fund to increase community-based services, including funding for three-way contracts with local hospitals, development of electronic health records, and promoting the integration of physical and mental health services.

The Center Praises the N.C. Secretary of Health and Human Resources

The Center notes that the N.C. Department of Health and Human Services has kept administrative and overhead costs in 2010-11 to 1.5 percent of the Department's total budget. The Center also praises Lanier Cansler, the Secretary of Health and Human Services, for continuing to shift patients and funds from the state institutions to the community, as mandated by the U.S. Supreme Court. The Center found that 96 percent of those served by the public mental health system are served in the community and only 4 percent are served in state institutions. And, 77 percent of total funding for mental health services goes to community services and 21 percent to state institutions. By contrast, a previous Center study found that 43 percent of all mental health funding went to state institutions in 1996-97, though they served only 7 percent of the clients. In 1982-83, two-thirds of the funding went to institutions, which then served only 15 percent of the clients.

Cansler is a Certified Public Accountant and served four terms as a Republican legislator from Buncombe County. "He is trusted by members in the General Assembly, and he has the right mix of skills to make this system work – if the state budget crisis doesn't undermine his policy directions," says Mebane Rash at the Center.

About the Center's Evaluation of Mental Health Reform

The Center for Public Policy Research is conducting an evaluation of North Carolina's mental health reforms. Today, the Center releases research on the mental health system in North Carolina and who it serves. The Center's study also includes research presented across the state in a series of public forums on mental health reform. The next phase of the Center's study to be released this spring includes an in-depth evaluation of the three-way contracts. The Center also will compare North Carolina's mental health reform with six other

states. All of this research assesses the consequences – good and bad – of mental health reform over the last decade and points to lessons that current policymakers can use.

About the N.C. Center for Public Policy Research

The N.C. Center for Public Policy Research is an independent, nonpartisan, nonprofit research organization created in 1977 to evaluate state government programs and to study public policy issues facing North Carolina. The Center is supported in part by a grant for general operating support from the Z. Smith Reynolds Foundation in Winston-Salem, with additional support from eight other private foundations, 120 corporate contributors, and about 500 individual and organizational members.

This research on mental health reform in North Carolina is funded by grants from the N.C. GlaxoSmithKline Foundation, the Kate B. Reynolds Charitable Trust, and the Cone Health Foundation, with smaller grants from the John Rex Endowment and the Reidsville Area Foundation. The Center publishes a journal called *North Carolina Insight*, a citizens' guide to the legislature, and in-depth research reports such as a study of governance of the state's public universities. The Center recently has conducted studies of key issues facing the state's aging population and important issues facing community colleges in North Carolina. Upcoming studies will examine policies on financial aid for students and state water policy.

The Center's 48-page study of the mental health system in North Carolina and who the system serves is available to download electronically for $10. If you become a Center E-Member at $50, you will receive access to other articles in the Center's study of mental health reform as they are completed, as well as future issues of *North Carolina Insight* and the Center's quarterly e-newsletters. To order or join the Center, go to *www.nccppr.org.*

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