



C A L I F O R N I A D E P A R T M E N T O F

Mental Health

1600 9th Street, Sacramento, CA 95814
(916) 654-2309

September 2, 2005

DMH LETTER NO.: 05-06

TO: LOCAL MENTAL HEALTH DIRECTORS
LOCAL MENTAL HEALTH PROGRAM CHIEFS
LOCAL MENTAL HEALTH ADMINISTRATORS
COUNTY ADMINISTRATIVE OFFICERS
CHAIRPERSONS, LOCAL MENTAL HEALTH BOARDS

SUBJECT: MENTAL HEALTH SERVICES ACT COMMUNITY SERVICES
AND SUPPORTS—STARTUP FUNDING AND PRUDENT
RESERVES

REFERENCE: Implementation of MHSA, Welfare and Institutions Code (WIC)
Sections 5847, 5848, and 5892

The purpose of this letter is to transmit the Mental Health Services Act (MHSA) start-up funding requirements for the Community Services and Supports (CSS) Component of the MHSA and the Department of Mental Health (DMH) policy regarding MHSA prudent reserves for services in each county.

START-UP FUNDING

A county may request to use a portion of their fiscal year (FY) 2005-06 Community Services and Supports (CSS) Funding identified in DMH Letter 05-02 for start-up expenditures that fall into one of the following categories:

- Extension of Community Program Planning Funding
- System Improvement Funding
- Other One-Time Community Services and Supports Funding.

Counties may provide start-up funding to contract providers for any of the three categories listed above. Specific requirements for each category are described below.

Extension of Community Program Planning Funding

A county may request an extension of Community Program Planning Funding of up to five percent of their FY 2005-06 CSS planning estimate to fund continued planning activities.

Small counties are limited to either five percent of their FY 2005-06 planning estimate or an amount equal to their initial planning distribution as identified in DMH Letter 05-01, whichever amount is greater.

These additional planning funds are expected to be used after the initial distribution of planning funds is exhausted. Counties should use the Local Planning Budget Worksheet included in DMH Letter 05-01 and submit the budget to the State to request these funds. Activities approved by the Department as part of the initial County Requests for Funding for MHSA Planning may be funded with this extension without any additional program narrative. Any significant changes in the planning activities must be substantiated with a narrative description of those changes for approval by the Department. The additional planning funding will be paid in one lump sum amount.

System Improvement Funding

A county may request to use a portion of their CSS funding for system improvement and other expenditures necessary to support the CSS Plan during the three month time period required by the Department to review and approve the CSS Plan. Types of allowable system improvement activities include but are not limited to: Request for Proposal development, issuance and review for programs and services proposed in the Plan, and all necessary human resources activities to recruit personnel for the proposed MHSA programs and services. Additionally, counties that had their AB2034 DMH grant reduced in FY 2005-06 may use system improvement funds to restore their AB2034 program to the original AB2034 grant amount until their CSS Plan is approved. Counties are advised not to enter into contracts for services or hire additional service delivery personnel until approval by the State of their Community Services and Supports Plan.

Counties should request system improvement funding at the same time they request an extension of program planning funds by completing the proposed Local Planning Budget Worksheet included in DMH Letter 05-01, a budget narrative describing the details of the budget and a one-page description of the primary activities to be funded. Upon approval by the State of the local planning budget, counties will receive one payment from the State for system improvement activities.

Requests for Community Program Planning and System Improvement funding may be submitted at any time. All requests should be submitted to:

Department of Mental Health
County Operations Section
1600 9th Street, Room 100
Sacramento, CA 95814

Other One-Time Community Services and Supports Funding

Types of activities allowable for other one-time CSS funding include capital purchases, training and education, the cost of improving the functionality of information systems used to collect and report client information, and one time service costs, such as one-time intensive

outreach. Capital purchases may include the cost of vehicles, the costs of equipping new employees with all necessary technology (cellular telephones, computer hardware and software, etc.), the cost of enhanced and/or increased space needs related to services proposed under the CSS Program and Expenditure Plan, or the cost of capitalizing rent subsidies.

A county may request funding for these one-time Community Services and Supports expenditures through the CSS Budget Worksheet submitted as part of the CSS Program and Expenditure Plan. A county must provide detailed budget information for proposed one-time expenditures in the budget narrative and describe how the one-time expenditures relate to the services proposed in the CSS Program and Expenditure Plan. A county should also indicate in the budget narrative the anticipated timing (i.e., fiscal quarter) of these one-time expenditures. One-time CSS expenditures will be funded with the quarterly distributions of CSS planning estimates based on the timing of such expenditures identified by the county.

Limitations on System Improvement and Other One-Time Community Services and Supports Funding

Counties may request funding for system improvement and other one-time CSS activities through the budget processes outlined above for up to six months (50 percent) of a county's FY 2005-06 CSS planning estimate. These funding requests are subject to review by the Department for reasonableness, and to ensure there is a relationship with a county's CSS Plan. Counties may request up to an additional three months of funding (25 percent of the CSS planning estimate) but need to demonstrate in a separate budget narrative (1) why six months funding is insufficient to meet the basic needs of system improvement and other one-time funding needs, (2) why an additional three months funding is essential for system transformation, and (3) that the proposed expenditures reflect the prices a prudent purchaser would pay for items. The Department will review each request for additional funding in detail. Under this process, a county will not receive more than their annual CSS planning estimate on start-up activities and CSS services in FY 2005-06.

Use of Start-Up Funding

In accordance with the CSS Program and Expenditure Plan Requirements, for the three-year planning period, the majority of CSS funds must be used for Full Service Partnerships. Since the CSS start-up funding (extension of community program planning, system improvement and other one-time CSS funding requests) is part of the CSS planning estimate, the use of CSS start-up funds is to be factored into the determination as to whether a county is in compliance with the requirement that the majority of funds be used for Full Service Partnerships.

PRUDENT RESERVE

The Department intends to maintain a prudent reserve for each county in order to mitigate the impact of decreases in MHSA revenues from year to year.

Need for Prudent Reserve

The revenue source for the Mental Health Services Fund (1% tax on individual income in excess of \$1 million) has historically been very volatile. Between 1999 and 2000 the revenue from this source would have increased by \$400 million (49%) and between 2000 and 2001 it would have decreased by \$600 million (51%). Estimated revenues in 2002 were \$377 million less than 1999 revenue levels and \$782 million less than the peak revenue level of 2000. The proposed prudent reserve would mitigate, but not prevent, the need for program reductions in years with such extreme decreases in revenue. This historical information (see table below) supports the creation of a substantial reserve to insure that clients who are receiving essential mental health services are not suddenly cut off from program services.

Estimated Mental Health Services Fund Revenues

Tax Year	Revenue	Actual Change	Percent Change
1999 ¹	\$825	---	
2000 ¹	\$1,230	\$405	49.09%
2001 ¹	\$603	-\$627	-50.98%
2002 ¹	\$448	-\$155	-25.70%
2003 ¹	\$544	\$96	21.43%
2004 ²	\$589	\$45	8.27%
2005 ³	\$634	\$45	7.64%
2006 ³	\$672	\$38	5.99%
2007 ³	\$713	\$41	6.10%
2008 ³	\$758	\$45	6.31%

Amount Required for Prudent Reserve

Given the large volatility of the revenue source for services provided under the MHSA and the strong desire to create a sustainable level of client services, the target prudent reserve is equal to 50 percent of each county's CSS planning estimate. In FY 2005-06, the target statewide aggregate reserve is \$157.4 million (50 percent of the \$314.75 million planning

¹ Actual

² Estimated

³ Included in Prop 63

estimate for FY 2005-06). The target amount for the reserve would remain at 50 percent of the preceding year's CSS planning estimate.

Creating and Maintaining the Reserve

Each county's prudent reserve will be treated as a county-specific encumbrance by the Department. The target for each county's initial reserve amount is 50 percent of their CSS planning estimate. The funds for each county's initial prudent reserve will come from the following sources:

1. Uncommitted county FY 2005-06 CSS planning estimates. The Department anticipates that not all counties will have the capability to expend the full amount of their FY 2005-06 CSS planning estimates. Counties should ensure their proposed CSS Plan budgets reflect their true estimated costs, which should incorporate a phase-in period required to staff the program and enroll clients in the program. Each county's uncommitted FY 2005-06 CSS planning estimate will be aggregated by the State. The total uncommitted statewide FY 2005-06 CSS planning estimates will then be encumbered for each county to fund county-specific prudent reserves based on the same distribution formula used for calculating the CSS planning estimates. This will provide each county with the same percentage prudent reserve relative to their CSS planning estimates.
2. Set aside funding. The Department anticipates that a portion of the \$35 million in set aside funding will be available to fund county prudent reserves. The set aside funding will be encumbered to fund county-specific prudent reserves based on the same distribution formula used for calculating the CSS planning estimates.
3. Additional MHSA revenues above those currently estimated. If actual MHSA revenues exceed the estimated revenues used to determine the CSS planning estimates, the first priority for such revenues will be to fund county prudent reserve accounts until the target reserve amount has been reached. The distribution of these funds will be based on the same distribution formula used for calculating the CSS planning estimates. Once the target reserve amount has been reached, uncommitted revenues will be made available for other new and expanded services consistent with the MHSA.

The same funding sources will be used in fiscal years 2006-07 and 2007-08 to try and fund all county reserves at 50 percent of their CSS planning estimate prior to FY 2008-09. If this level of reserves is not met prior to FY 2008-09, a one-time contribution may be made from the increase in CSS funding to the reserves in FY 2008-09 to reach the desired reserve level. Additional reserves may be required in fiscal years 2006-07 and 2007-08 to the extent that MHSA revenues increase above estimated FY 2005-06 amounts.

Use of Reserves

The reserves created by the Department for each county may be used only to supplement CSS planning estimates for counties in years when MHSA revenues are less than the

preceding year. Welfare and Institutions Code Sections 5847 and 5892 provide general guidance as to the circumstances under which prudent reserves may be used. The amount of reserves that may be used in the first year of a revenue shortfall is limited to no more than the amount necessary to increase the CSS planning estimates to the level of the CSS planning estimates for the immediately preceding year. In the event of a revenue shortfall, DMH will limit the use of the reserve in the first year to 67 percent of the total reserve available. If there is a second consecutive year with a revenue shortfall, the remainder of the reserve may be used to increase the CSS planning estimates to the level of the CSS planning estimates for the immediately preceding year. The Department will work with the Department of Finance to provide counties as much advance notice as possible of years in which the Department of Finance anticipates a decline in MHPA revenues.

Use of Set Aside Funding

The Department indicated in DMH Letter 05-04 that \$35 million in FY 2005-06 would be set aside and that one use of this set aside funding would be to fund a prudent reserve. Additionally, the Department anticipates that a portion of the \$35 million set aside funding will be available to fund:

1. Expansion of enrollment and/or services in counties where there is demonstrated capacity to expand and achieve outcomes.
2. Statewide or regional strategies to meet the needs of low incidence populations with multiple disabilities or other populations with very high needs.
3. Other critical needs consistent with the requirements of these sections of the MHPA.

The Department intends to issue further guidance on the intended use of set aside funds in the near future.

If you have any questions or need additional information, please contact the County Operations staff assigned to your county (See Enclosure 1).

Sincerely,

Original signed by:

STEPHEN W. MAYBERG. Ph.D.
Director

Enclosures

cc: California Mental Health Planning Council
Chiefs, County Operations Sections
Members, Mental Health Oversight and Accountability Commission