



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

August 6, 2009

DMH INFORMATION NOTICE NO.: 09-16

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 LOCAL PRUDENT RESERVE
(PRUDENT RESERVE) FISCAL POLICY CHANGES

REFERENCE MHSA WELFARE AND INSTITUTIONS CODE (WIC) SECTION
5847 (b)(7)

Pursuant to the responsibilities of the Department of Mental Health (DMH) and the Mental Health Services Act Oversight and Accountability Commission (MHSOAC) as outlined in Welfare and Institutions Code (WIC) 5892 (b) (1 through 7), 5847 (d) and 5892 (a) (3), this Information Notice informs the Counties¹ that receive funding under the Mental Health Services Act (MHSA) of an update to the DMH Prudent Reserve policy. Specifically this Information Notice advises counties on:

- the addition of Prevention & Early Intervention (PEI) approved funding levels in the calculation of the required Prudent Reserve level;
- the addition of PEI services as an allowable use of Prudent Reserve Funds;
- how PEI funds made available prior to Fiscal year 2008/09 may be used to fund the Prudent Reserve;
- how access to the Prudent Reserve will be determined; and,
- an updated process for requesting to place funds in the Prudent Reserve.

The Prudent Reserve is previously addressed in DMH Information Notices Nos.: 07-25, 08-01, 08-10, 08-16 and 08-28 (Exhibit G). Information Notice No.: 08-01 provided a form for Counties to request and dedicate funds to their Prudent Reserve. This Information Notice supersedes Information Notice No.: 08-01 and provides an updated form for Counties to dedicate funds to their Prudent Reserve. A copy of the new form (FY 2009/10 Prudent Reserve Plan) is enclosed.

¹ "County" means the County Mental Health Department, two or more County Mental Health Departments acting jointly, and/or city-operated programs receiving funds per WIC section 5701.5 (California Code of Regulations, Section 3200.090).

Economic Impacts

The MHSA services and programs are funded by revenues from the voter approved one percent (1%) tax levy on individuals earning a gross adjusted income above one million dollars. Due to the current economic recession, the numbers of individuals in this tax bracket have decreased. As a result, future MHSA revenues are expected to decline, resulting in reductions to MHSA Planning Estimates. DMH has monitored Prudent Reserve levels and researched additional ways to fund the Prudent Reserve.

Prudent Reserve Levels

Welfare and Institutions Code (WIC) Section 5847(b)(7) requires Counties to establish and maintain a Prudent Reserve to ensure the County programs will continue to be able to serve those currently being served should MHSA revenues drop. Initially, the Act required that the Prudent Reserve be maintained to serve those individuals receiving services under the MHSA Community Services and Supports (CSS) component of the Three-Year Program and Expenditure Plan (Plan).

DMH Information Notice No.: 07-25 established the policy and guidelines for the Prudent Reserve and required 50 percent of the most recent annual approved funding level for the CSS component to be set aside in the Prudent Reserve to meet the intent of the Act.

Enactment of Assembly Bill 5 (2008-2009 Ex. Sess.) (ABX3 5) amended WIC Section 5847 (b) (7) and expanded the purpose of the Prudent Reserve to include programs serving clients through both the CSS and the Prevention and Early Intervention (PEI) components of the Act. In keeping with the previously established Prudent Reserve policy, a County must maintain a Prudent Reserve equal to 50 percent of the most recent annual approved CSS funding level and 50 percent of the most recent annual approved PEI level, less the non-recurring expenditures. However, as detailed in the "Future Activities" section of this Information Notice (below) DMH intends to review both the current mechanism and level of the required Prudent Reserve to ensure that, as the economy recovers and revenues stabilize, funding and maintenance of a local Prudent Reserve by counties will be achievable.

For the purposes of the Prudent Reserve policy, PEI Statewide Projects are considered non-recurring expenditures and are not included in the calculation of this 50 percent Prudent Reserve level.

Funding for Prudent Reserve

DMH Information Notice No.: 07-25 directed Counties to fund their Prudent Reserve at the required level by July 1, 2010. However, most Counties have not fully funded their Prudent Reserve and have only set aside a small percentage of funds in Prudent Reserve. Acknowledging the current economic downturn and the difficulties Counties face, DMH has

extended the period in which Counties have to fully fund the Prudent Reserve until June 30, 2011.

Additionally, WIC Section 5892(b) specifies that in any year after FY 2007/08, an amount equal to twenty percent (20%) of the average amount of funds allocated to each County for the previous five years may be redirected from the CSS Planning Estimate to fund the County's Prudent Reserve, human resources needs or capital & technology needs. See the following internet site for the 20% levels by County for fiscal years 08/09 and 09/10:
http://www.dmh.ca.gov/Prop_63/MHSA/docs/FiscalResources/FY09-1020percentLimit12-19-08.pdf

Because the Act does not specify the 20% transfer from CSS funding mechanism until FY 2008-2009, DMH has determined that Counties may use both CSS and PEI funds made available prior to FY 2008/09 to fund their Prudent Reserve. This would include CSS and PEI funds that were approved through a Plan update and distributed to Counties, but which have not been expended (unexpended funds) and/or funds that were not requested or approved (unapproved funds) remaining in Planning Estimates for years prior to FY 2008/09. Because PEI Statewide Projects are considered non-recurring expenditures and are not included in the calculation of the 50 percent Prudent Reserve level, PEI Planning Estimates made available to Counties to fund PEI Statewide Projects are not available to fund their Prudent Reserve.

Access to Prudent Reserve

WIC Section 5847(b) (7) requires that funds set aside in a Prudent Reserve be made available during years in which "revenues for the Mental Health Services Fund are below recent averages adjusted by changes in the state population and the California Consumer Price Index".

MHSA Planning Estimates are based on revenues that accumulate in the previous fiscal year. In allowing access to the Prudent Reserve, DMH will interpret "recent averages" as an average of the actual revenues from the three most recent fiscal years. The average will be adjusted by the variables (population growth and Consumer Price Index) required in statute. The adjustment variables will be based on the data published on the Department of Finance website as of May 1st of each year. Adjustments are applied independently and are not compounded. The adjusted average will be compared to the actual revenues of the third year of the most recent three fiscal years. If the adjusted average revenues are above the actual revenues in year three, Counties will be allowed access to the Prudent Reserve in the upcoming fourth fiscal year.

DMH will calculate the access threshold for the Prudent Reserve prior to the start of the upcoming FY and notify Counties, concurrent with release of the Planning Estimates for that FY, whether access to the Prudent Reserve will be allowed. Based on current revenue projections and adjustment factors, it is anticipated Counties will have access to their Prudent Reserve beginning July 1, 2010.

Upon verification that access to the Prudent Reserve is in effect, DMH will suspend the 50% Prudent Reserve requirement during these years. During years that Prudent Reserve may be accessed, DMH will also suspend the requirement that Counties return to the FY 2007/08 funding levels and dedicate future funding increases to their Prudent Reserve until they meet the required level. Once access to the Prudent Reserve is no longer available, Counties will be expected to replenish the Prudent Reserve to the required levels in accordance with the Act.

Access to the Prudent Reserve will be determined on a statewide level and once notified that the access threshold has been reached, Counties may submit a Plan or an update to access all or part of the funds set aside in their Prudent Reserve. Prudent Reserve funds may be requested by Counties to support any services allowable under the CSS and PEI components; however Prudent Reserve funds may not be used to fund PEI Statewide Projects. As with all PEI plans submitted by counties, requests to use Prudent Reserve funds to support PEI activities must be reviewed and approved by the MHSOAC.

Instructions on how to request funds from Prudent Reserve will be provided concurrent with the annual update guidelines for years in which the Prudent Reserve threshold is activated.

When possible, DMH encourages Counties to continue to build the Prudent Reserve during the years that access to the Prudent Reserve is available.

Process to Request to Fund the Prudent Reserve

The Prudent Reserve Funding Request and instructions are enclosed. To dedicate funds to the Prudent Reserve, a County may submit the enclosed form signed by the County Mental Health Director (or designee). This form serves as an update to the County's existing Plan, and a request for DMH to modify the County's existing MHSA Agreement. Each County must comply with Title 9, California Code of Regulations, Section 3300 regarding the Community Planning Process and Section 3315(b) regarding the local review process that includes a 30-day comment period prior to submitting the enclosed form.

The MHSOAC will review and approve county Plan updates to transfer PEI funds to the Prudent Reserve. DMH will review and approve county Plan updates to transfer CSS funds to the Prudent Reserve. Upon approval of the Plan update by DMH and/or the MHSOAC, the Department will initiate a unilateral modification to the County's executed MHSA Agreement.

Submission

One hard copy and one electronic copy that is a single document in Excel format should be submitted to both the DMH and to the MHSOAC.

DMH copies should be sent to:

Mailing address: Department of Mental Health
ATTN: MHSA Plan Review
1600 9th Street, Room 100
Sacramento, CA 95814

Email: ccta@dmh.ca.gov

MHSOAC copies should be sent to:

Mailing address: MHSOAC
1300 17th Street, Suite 1000
Sacramento, CA 95811
Attn.: Beverley Whitcomb

E-mail: MHSOAC@dmh.ca.gov

Future Activities

Current projections indicate that the current fragile economic conditions are expected to continue and the anticipated economic recovery will be slow. As a result, future MHSA revenues are expected to remain below recent levels and it is likely that access to the Prudent Reserve will remain in effect. Because of the effect WIC Section 5892(b) may have on a county's ability to fund the Prudent Reserve in Fiscal Years 08/09 and beyond, during the time access to the Prudent Reserve is in effect, input will be sought on both the current mechanism and level of the required Prudent Reserve to ensure that, as the economy recovers and revenues stabilize, funding and maintenance of a local Prudent Reserve by counties will be achievable.

If you have any questions regarding the content of this information notice, please contact your County Technical Assistance representative identified on the following Internet site: http://www.dmh.ca.gov/Services_and_Programs/Local_Program_Support/County_Technical_Assistance.asp.

Sincerely,

Original signed by

STEPHEN W. MAYBERG, Ph.D.
Director