



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

Department Name: ADMHS  
Department No.: 043  
For Agenda Of: 2-5-08  
Placement: Departmental  
Estimated Tme: 1 Hour  
Continued Item: No  
If Yes, date from:  
Vote Required: 4/5

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**TO:** Board of Supervisors

**FROM:** Department Ann Detrick, PhD, Director  
Director(s) Alcohol, Drug & Mental Health Services 805-681-5220  
Contact Info: Marianne Garrity, Assistant Director, Administration 681-5220

**SUBJECT: ADMHS FY 07-08 Budget Reforecast**

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**County Counsel Concurrence**

As to form: Yes

**Other Concurrence:** N/A

As to form: N/A

**Auditor-Controller Concurrence**

As to form: Yes

**Recommended Actions:**

Consider recommendations regarding the FY 07-08 Budget Reforecast for the Mental Health Division of the Alcohol, Drug and Mental Health Services Department (ADMHS), as follows:

- a. Receive report regarding the ADMHS financial status and FY 07-08 Budget Reforecast;
- b. Consider options and take action to balance ADMHS' FY 07-08 Budget.
- c. Approve a Budget Revision Request to transfer funds for mental health services previously approved by the Board of Supervisors.

**Summary Text:** ADMHS has faced significant financial challenges since FY 05-06 and, as previously reported to the Board, the department has been conducting a structural analysis of its financial and business operations to determine its overall financial position. This has resulted in the identification of an additional budgetary shortfall for FY 07-08 of approximately \$6.97 million. This report summarizes ADMHS' financial status and the FY 07-08 Budget Reforecast with a focus on adult mental health programs. The department has reviewed multiple options for balancing the current year budget given the short timeframe in which to achieve the necessary results. The FY 07-08 Reforecast is comprised of two viable options for the Board's consideration and implementation to balance the department's FY 07-08 Budget.

**Background:**

In FY 06-07, County mental health facilities provided 117,426 units of service to 4,776 adult clients. In addition, ADMHS contracts with CBOs to provide a variety of adult mental health services in the amount of approximately \$9 million. In FY 06-07, CBOs served 1,462 of these clients (782 in North County, 680 in South County). ADMHS Mental Health Division funding comes from a combination of Medi-Cal (a fee for service federal entitlement program for eligible clients); Early Periodic Screening, Diagnosis and Treatment (EPSDT) revenue (the State funding used to “match” the federal portion of Medi-Cal for children); State Realignment (a State allocation of sales tax revenue to mental health departments); and 2.1% County General Fund Contribution (GFC).

**FY 05-06 Budget Shortfall**

In June 2006, the FY 05-06 year-end actual reflected a \$2.4 million shortfall which was primarily due to lower than expected revenues from adult Medi-Cal and children’s EPSDT Medi-Cal. The decrease in Medi-Cal revenue was attributed to a high number of ineligible clients. In fact, approximately 30% of ADMHS’ clients were ineligible to receive Medi-Cal. The high number of uninsured clients was driven by the CARES South program, where approximately 60% of the clients are uninsured, meaning the services must be paid for with County Realignment and General Funds. This \$2.4 million shortfall was covered by the department’s fund balance, which resulted in a zero fund balance at the beginning of FY 06-07.

**FY 2006-07 Budget Reforecast**

In August 2006, as a result of the FY 05-06 revenue shortfall, the department reassessed the revenue assumptions of the FY 06-07 proposed budget. ADMHS identified a FY 06-07 shortfall due to a combination of factors: more uninsured clients, increased costs in out-of-county hospitalizations, pharmaceuticals, contracted services, temporary doctors and extra help. These increased costs were compounded by chronic delays in State Medi-Cal payments and the resulting interest charges on funds borrowed to meet normal operating costs. The Board of Supervisors approved the FY 06-07 Budget Reforecast Plan for ADMHS which included a variety of department revenue and expenditure reductions: decrease in Medi-Cal and Early Periodic Screening, Diagnosis and Treatment (EPSDT) revenues and expenditures by \$5.2 million; budget reductions relating to out-of-county hospitalizations, professional & contractual services, pharmaceutical and administrative costs; reduction of 10 County positions (7 deleted and 3 reassigned from the Mental Health Division to the Alcohol and Drug Program (ADP) Division). The reductions in FY 06-07 represented adjustments to budgeted increases in service levels that were being postponed and did not reflect any reductions in existing contracts with Community Based Organizations (CBOs) or the level of services to clients.

**FY 2007-08 Budget Challenges and Reforecast**

ADMHS has undertaken a number of initiatives to realize cost savings, including: working with the Department of Social Services to assist individuals with severe mental illness in the Medi-Cal /SSI application process; implementing a medication formulary to control pharmaceutical costs; and implementing utilization management for out-of-county hospitalizations. Despite the department’s efforts, additional steps must be taken to balance the FY 07-08 Budget.

ADMHS’ financial challenges (and proposed solutions), are found primarily in the adult mental health system due to the low reimbursement rate, along with the increasing uninsured population for which the County receives no reimbursement for services provided, as previously outlined. For adults who are eligible, Medi-Cal reimburses the County approximately 50% of the cost of covered services to

adults, and the remaining 50% must be made up of ADMHS match. Conversely, children’s mental health services are 90% reimbursed, requiring only a 10% County match. In addition, delays in State Medi-Cal payments and the interest charges the department must pay continue to pose financial challenges. The Alcohol and Drug division and the MHSA division are both financially sound in the current year. However, both programs receive categorical funding that may not be used to pay for mental health division expenditures. MHSA funds must be used for implementation of new services and programs and may not be used for services the department provided prior to MHSA.

In the fall of 2007, ADMHS estimated a shortfall for FY 07-08 in the amount of \$3.4 million. ADMHS consulted with the County Executive Office to develop a budget balancing plan. In addition, ADMHS worked with represented bargaining units and CBOs that provide adult mental health services to develop elements of the Plan. The Plan included: ADMHS departmental reductions in staffing and salary savings totaling \$1.3 million; 8% reduction to contracts with adult mental health contractors; and proposed one time Bridge Funding from the Board in the amount of \$1.7 million.

After additional analysis of available data for the adult Mental Health Division, and review of all potential financial challenges, the department now projects a \$6.97 million shortfall for FY 07-08. The shortfall can be attributed to the following unfavorable variances compared to the FY 07-08 Budget.

<b>FY 07-08 Unfavorable Variances:</b>	<b>\$'s (in millions)</b>
Medi-Cal/EPSDT Revenue Shortfall (including shortfall of \$2.4m from FY 06-07)	\$(5.39)
Partial Medicare Offset	1.08
CARES North Residential and Casa del Mural (BOS direction to proceed, unfunded programs)	(1.18)
Interest expense (State’s delay in payment to SBC)	(0.52)
No CPI increase in Realignment Funds (State budget issue)	(0.52)
All other variances	(0.44)
<b>Estimated 2007/08 Unfavorable Variance</b>	<b>\$(6.97)</b>

Santa Barbara County is experiencing a trend which is evident throughout California: core Mental Health programs are being reduced while new Mental Health Services Act (MHSA) programs are being developed and implemented. Many of Santa Barbara’s comparable counties continue to find that revenue sources are insufficient to meet increased operating costs and continue existing service levels. Counties are being faced with the difficult decision to contribute additional funds or reduce services and expenditures. Furthermore, the Governor’s Proposed Budget projects a shortfall of \$3.3 billion in the current fiscal year, which will grow to \$14.5 billion in FY 08-09. The proposal, currently under review at the State level, recommends a 10-percent across-the-board reduction to nearly every General Fund program, and to have those reductions take effect on March 1. ADMHS’ financial problems would be further exacerbated should the recommended program reductions receive State approval.

**Recommended Actions:**

Due to the significant financial and service implications, ADMHS and the CEO's office have developed two options for the Board to consider in order to balance the department's FY 07-08 Budget. These options will help mitigate the impact of reductions to ADMHS and CBOs this fiscal year, to varying degrees, and allow a brief period for planning a restructured system going forward. Any solution that does not include fund transfers will have a devastating effect on services to adults with mental illness in the community.

**Previous Actions:** Each option includes the provision of GFC to formalize actions previously directed by the Board. The recommended action includes approval of a Budget Revision Request to transfer funds from the General Fund Strategic Reserve for mental health services previously approved by the Board of Supervisors for the following:

- On June 26, 2007, the Board directed ADMHS to continue to fund the Casa del Mural program maintaining the current program model through FY 07-08 using General Fund fund balance (in the amount of \$530,000). ADMHS has reevaluated the program and will provide an update to the Board in the near future.
- On November 6, 2007, the Board approved funding a budget expansion request in the amount of \$650,000 to provide funding for North County residential crisis services (CARES North Residential) for six months.

The following are options developed for the Board's consideration:

**Option A  
Adult Mental Health System**

Option A would provide GFC in the amount of \$6.97 million to maintain the existing level of services through June 30, 2008 while budget strategies are evaluated for FY 08-09, which may require additional reductions in programs including County operated and contracted programs and/or transfer of additional General Fund dollars.

<b>Option A Financial Summary</b>	
	\$ (in millions)
<b>PROJECTED 2007/08 SHORTFALL</b>	\$(6.97)
<b>General Fund Contribution (GFC):</b>	
Bridge Funding	1.7
General Liability Fund transfer	0.25
CARES North Residential Funding	0.65
Casa del Mural Funding	0.53
Additional GFC	3.84
<b>Total GFC</b>	<b>\$6.97</b>
Dept. Reductions:	
ADMHS program reductions	-
CBO reductions	-
<b>Total Dept. Reductions</b>	<b>-</b>
<b>Total Funding/Reductions to Balance</b>	<b>\$6.97</b>

**System Redesign**

In a series of meetings, ADMHS staff along with representatives from contracted agencies agreed that there is a significant need for the Mental Health System to be restructured to ensure the system can deliver high quality, cost effective services informed by best practices. Consequently, the department, in concert with representatives of consumers, represented bargaining units, contracted agencies and the CEO, has launched a Mental Health Services Redesign effort. The Redesign has begun by reviewing current caseload using the Level of Care and Recovery Instrument (LOCRI) to ascertain the mental health needs of existing clients and better match them to available services. Based on this analysis, the Redesign team will develop a mental health system that provides services to those residents ADMHS is mandated to serve.

**Option B  
Adult Mental Health System**

Option B represents GFC of \$5.57 million and \$1.4 million in reductions to expenditures for departmental operations and for contracted services. Although this option includes an increase in the amount of GFC, it would require significant reductions in expenditures for departmental operations as well as contracted services because the reductions must be realized in a compacted timeline.

<b>Option B Financial Summary</b>	
	\$ (in millions)
<b>PROJECTED 2007/08 SHORTFALL</b>	<b>\$ (6.97)</b>
<b>General Fund Contribution (GFC):</b>	
Bridge Funding	1.7
General Liability Fund transfer	0.25
CARES North Residential Funding	0.65
Casa del Mural Funding	0.53
Additional GFC	2.44
<b>Total GFC</b>	<b>\$5.57</b>
<b>Dept. Reductions:</b>	
ADMHS program reductions	1.0
CBO program reductions (contract reductions of \$0.8 yield County savings of \$0.4m)	0.4
<b>Total Dept. Reductions</b>	<b>\$1.4</b>
<b>Total Funding/Reductions to Balance</b>	<b>\$6.97</b>

**ADMHS Expenditure Reductions**

ADMHS will achieve position allocation changes that will result in expenditure reduction of approximately \$1.0 million. This will involve workforce reductions in the Adult Mental Health Division. Whenever possible, staff will be afforded an opportunity to move into existing vacant positions in other programs including Mental Health Services Act (MHSA) and ADP.

**Contracted Expenditure Reductions**

ADMHS contracts with community based organizations to provide a variety of adult mental health services. The FY 07-08 contracts with contracted agencies are valued at approximately \$9 million. In order to achieve a balanced budget for FY 07-08, expenditure reductions in contracts with contracted agencies must also be implemented. Due to the County match requirement for Medi-Cal services, to achieve a savings of \$400,000 to the County, a reduction in the service contracts of approximately \$800,000 is necessary. Achieving this level of reduction would result in a disproportionate reduction in services due to implementation in a short timeframe. ADMHS and contracted agencies hope to mitigate the negative impacts of these reductions whenever possible, and will strive to maintain residential programs and scale back the number of services rather than reducing the number of clients served.

As the reductions to the department's budget become greater, so does the likelihood of negative impacts to clients, including:

- Acute psychiatric inpatient care at an average rate of \$950 per day;
- Law enforcement involvement (arrests, court, jail);
- Homelessness;
- Emergency room and crisis service use visits;
- Culturally or geographically diverse populations remaining un-served;
- Detox bed days for persons with dual disorders;
- Foster care placement for children of clients who are parents;
- Costly medical conditions (i.e. cardiovascular disease, diabetes).

**Fiscal and Facilities Impacts:**

As outlined previously in Options A and B.

**Staffing Impacts:**

As outlined previously in Options A and B.

**Special Instructions:**

Please send one (1) copy of the minute order to:

Alcohol, Drug & Mental Health Services  
ATTN: Contracts Division  
300 N. San Antonio Road Bldg. 3  
Santa Barbara, CA 93110

**Attachments:**

Budget Revision Request

**Authored by:**

Christina Toma

**cc:**

County Executive Officer