



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: CEO  
Department No.: 012  
For Agenda Of: May 15, 2012  
Placement: Departmental  
Estimated Tme: 30 minutes  
Continued Item: No  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Supervisors  
**FROM:** Department Chandra L. Wallar, County Executive Officer  
Director(s)  
Contact Info: Terri Nisich, Assistant County Executive Officer, 568-3400  
Tom Alvarez, Budget Director, 568-3400  
**SUBJECT: CEO Recommended Funding of ADMHS Operating Losses & Liabilities**

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**County Counsel Concurrence**

As to form: N/A

**Auditor-Controller Concurrence**

As to form: N/A

**Recommended Actions:**

That the Board of Supervisors:

- A. Receive report on the proposed funding sources for known and estimated liabilities of Alcohol, Drug and Mental Health Services (ADMHS); and
- B. Direct the CEO's office to utilize unallocated funds (\$4,620,000) currently in the Audit Exception Fund to fund prior year Medi-Cal related cost report settlement liabilities as identified in this report; and
- C. Direct staff to return to the Board with a budget revision to transfer funds of \$4,793,045, when recognized, from a favorable State Audit Settlement for FY 2002-03 to FY 2005-06 into the Audit Exception Fund to be used to fund the projected ADMHS FY 2011-12 operating loss and for future estimated Medi-Cal related cost report settlement liabilities

**Summary Text:**

On March 20, 2012, ADMHS Department presented information to the Board of Supervisors regarding the Department's current year financial status. At that time the Department recommended that no action occur as the Department, County Executive Office and Auditor Controller were continuing to work to review the overall status of liabilities, determine current year opportunities and identify potential funding sources to address the current year shortfall as well as other historic liabilities. In a separate Board Letter prepared by ADMHS and presented on May 15, 2012, ADMHS described and quantified their projected FY 2011-12 operating loss and known and estimated Medi-Cal related cost report settlement liabilities. This Board Letter identifies the recommended funding for ADMHS' described needs.

**Background:**

Rather than restate the funding needs already detailed in the ADMHS Board Letter (“the Board Letter”), we will incorporate these ADMHS funding needs by reference in this Board Letter.

**FY 11-12 Financial Status:** Page 6 of “the Board Letter” estimated the FY 2011-12 net financial impact as being a negative \$5.0 million. This immediate funding need was offset by a \$1.4 million funding shift of the Crisis and Recovery Emergency Services (CARES) program to the Mental Health Services Act (MHSA) fund; thereby reducing the funding need to a net amount of \$3.6 million.

**Medi-Cal Related Cost Report Settlement Liabilities:** Certain estimated ADMHS liabilities were quantified and described on page 7 of “the Board Letter”, which when added with the FY 2011-12 gross operating losses, reflect total funding needs of \$19.4 million. A summary of these Funding Needs is shown in the table below:

<b>Currently Known and Estimated ADMHS Funding Needs (millions)</b>	
FY 11-12 Projected Negative Net Financial Impact (gross)	\$5.0
Self Disclosures	1.2
Prior Years’ Cost Report Audits and Settlements (FY2005-06 to FY2008-09)	7.8
Other Settlements	0.3
<b>Partner Agency Liabilities (millions)</b>	
Multi-agency Integrated System of Care (MISC/CEC)	\$5.0
<b>Total Current Liabilities</b>	<b>\$19.4</b>

**Funding Sources:** Established funding sources that are available to address current ADMHS liabilities were described in detail in “the Board Letter”, page 7 and are depicted below.

<b>Established Funding Sources (millions)</b>	
Allocated Audit Reserves	\$4.1
CARES transfer to MHSA Fund	1.4
MISC/CEC Reserve	1.5
Deferred Revenue	0.8
<b>Total Identified Funding Sources</b>	<b>\$7.8</b>

**Strategy to Address Funding Needs:**

As described above, there are \$19.4M in known and estimated funding needs and \$7.8M in established funding sources to address the needs. This leaves an unidentified funding gap for currently known/estimated issues of \$11.6M. “The Board Letter” included the table below that summarized the funding needs and sources by the Fiscal Year of anticipated payment. The last column in this table presents the funding needs that do not have an identified funding source. The table below differs by \$.3 million from the ADMHS Board Letter due to:

- 1) The MISC/CEC Reserves were established by Public Health and Social Services and can not be used for the Probation department. The Probation department never established reserves and

prior budgets had identified the Strategic Reserves as the funding source for these Probation liabilities.

- 2) Deferred Revenues specifically relate to the FY 2008-09 and should be used for this period. These potential liabilities will be due in the area identified as FY 2013-14 and Future Years.

		Total	Established Funding Sources				Funding Need without Identified Source
			Allocated Audit Reserves	CARES Costs to MHSA Fund	MISC/CEC Reserve	Deferred Revenue	
<b>Established Funding Sources</b>		<b>\$7.8</b>	<b>\$4.1</b>	<b>\$1.4</b>	<b>\$1.5</b>	<b>\$0.8</b>	
<b>Liabilities</b>	<b>Liabilities &amp; Funding Required for FY 11-12 (Known &amp; Estimated)</b>						
	Self Disclosures	1.2	(1.2)	-	-	-	-
	Prior Years' Cost Report Audits and Settlements	4.7	(2.9)	-	-	-	1.8
	Multi-agency Integrated System of Care (MISC/CEC)	0.3	-	-	-	-	0.3
	FY 10/11 Over Accrued Revenue & FY 11/12 Negative Financial Impact	5.0	-	(1.4)	-	-	3.6
	Other Settlements	0.3	-	-	-	-	0.3
	<b>FY 11-12 Total Funding Needs and Established Sources</b>	<b>11.5</b>	<b>(4.1)</b>	<b>(1.4)</b>	<b>-</b>	<b>-</b>	<b>6.0</b>
	<b>Liabilities for FY 12-13 (Estimated)</b>						
	Prior Years' Cost Report Audits and Settlements	3.2	-	-	-	-	3.2
	Multi-agency Integrated System of Care (MISC/CEC)	1.9	-	-	(.5)	-	1.4
	<b>FY 12-13 Total Funding Needs &amp; Established Sources</b>	<b>5.1</b>	<b>-</b>	<b>-</b>	<b>(.5)</b>	<b>-</b>	<b>4.6</b>
	<b>Liabilities for FY 13-14 and Future Years (Estimated)</b>						
	Multi-agency Integrated System of Care (MISC/CEC)	2.8	-	-	(.7)	(0.8)	1.3
<b>Future Years Total Funding Needs &amp; Established Sources</b>	<b>2.8</b>	<b>-</b>	<b>-</b>	<b>(.7)</b>	<b>(0.8)</b>	<b>1.3</b>	
<b>Total Funding Needs and Established Sources</b>	<b>19.4</b>	<b>(4.1)</b>	<b>(1.4)</b>	<b>(1.2)</b>	<b>(0.8)</b>	<b>11.9</b>	
<b>Balance of Needed Funding without and Identified Funding Source</b>	<b>\$(11.6)</b>	<b>-</b>	<b>-</b>	<b>\$.3</b>	<b>-</b>	<b>\$11.6</b>	

**Funding the Balance of \$11.9 Million:**

There are three additional funding sources being recommended to address known and estimated funding needs of ADMHS. They are:

- 1) Unallocated Audit Reserves – On May 8, 2012 a budget revision was approved which eliminated the need to transfer \$4.6 million from the Audit Exception Reserve to ADMHS. This savings was the result of several years of work refining and negotiating the precise balance due the State related to the previously self disclosed liabilities (disclosed and estimated in November 2007).
- 2) Audit Recovery 43% - The California Department of Mental Health (DMH) had assessed audit disallowances against the County for FY 2002-03 through FY 2005-06 in the amount of more than \$11 million. The County appealed several of these findings but was required to pay the assessments prior to the appeal hearings. On April 13, 2012 a final decision pursuant to a joint stipulation between the County of Santa Barbara and DMH was entered into, whereby DMH will reduce by 43% the amounts previously determined to be owed by the County and DMH shall issue amended audit reports for these fiscal periods. The revised audit reports will increase the Federal Financial Participation (FFP) owing the County in the amount of \$3.7 million and will increase the State General Fund (SGF) owing the County in the amount of \$1.1 million, for a combined total owing the County of \$4.8 million.
- 3) Strategic Reserve: Probation – The Probation department also received reimbursement under the MISC/CEC Medi-Cal program. Over the past several years, the State has disallowed all of these reimbursements to Probation and general funds were used to reimburse the State. The remaining amount at risk to Probation is \$2.7 million and prior budgets had identified the Strategic Reserves as the funding source for these Probation liabilities.

The table below starts with the funding needs without an identified source as identified in the last column of the table on page 3 and allocates funding from the above three funding sources to apply to the known and estimated funding needs. These funds will be expected to be sufficient to pay for ADMHS liabilities that can be estimated at this time. ADMHS has taken steps that it believes will reduce the amount of future settlements which occur beyond the years reflected on this table; however, the actual results won't be known for some time and the risk of significant future settlements remains. For this reason, ADMHS was noted in section A of the FY 2012-13 Recommended Budget as a department that may require additional funding in future periods. Consideration will be given in future budgets to establishing reserves for ultimate cost settlements with the State for periods beyond the scope of this report.

	From	CEO Proposed			Balance
	Schedule on Pg. 3	Funding			
	Funding Needs without Identified Source	Unallocated Audit Reserves	Audit Recovery 43%	Strategic Reserve - Probation *	
<b>Established Funding Sources</b>		\$4.6	\$4.8	\$2.7	
<b>Liabilities &amp; Funding Required for FY 11-12 (Known &amp; Estimated)</b>					
Self Disclosures	-	-	-	-	-
Prior Years' Cost Report Audits and Settlements	1.8	(1.8)	-	-	-
Multi-agency Integrated System of Care (MISC/CEC)	0.3	(.3)	-	-	-
FY 10/11 Over Accrued Revenue & FY 11/12 Negative Financial Impact	3.6	-	(3.6)	-	-
Other Settlements	0.3	(.3)	-	-	-
<b>FY 11-12 Total Funding Needs and Established Sources</b>	<b>6.0</b>	<b>(2.4)</b>	<b>(3.6)</b>	-	-
<b>Liabilities for FY 12-13 (Estimated)</b>					
Prior Years' Cost Report Audits and Settlements	3.2	(2.2)	(1.0)	-	-
Multi-agency Integrated System of Care (MISC/CEC)	1.4	-	-	(1.4)	-
<b>FY 12-13 Total Funding Needs &amp; Established Sources</b>	<b>4.6</b>	<b>(2.2)</b>	<b>(1.0)</b>	<b>(1.4)</b>	-
<b>Liabilities for FY 13-14 and Future Years (Estimated)</b>					
Multi-agency Integrated System of Care (MISC/CEC)	1.3	-	-	(1.3)	-
<b>Future Years Total Funding Needs &amp; Established Sources</b>	<b>1.3</b>	-	-	<b>(1.3)</b>	-
<b>Total Funding Needs and Established Sources</b>	<b>11.9</b>	<b>(4.6)</b>	<b>(4.6)</b>	<b>(2.7)</b>	-
<b>Balance Remaining</b>	<b>\$3</b>	-	<b>\$2</b>	-	<b>\$5</b>

In summary, the above recommendations would provide sufficient funding for all currently known and estimated ADMHS funding needs with minimal unanticipated use of general funds. A summary table, in millions, is shown below:

Funding previously approved for ADMHS needs	\$7.8
Unallocated Audit Reserves	4.6
Audit Recovery 43%	4.8
Strategic Reserves for Probation's Medi-Cal liabilities	2.7
Total Identified and Recommended Funding Sources	\$19.9
Identified Funding Needs	(19.4)
Balance of Available Funds for Future Use	\$0.5

**Fiscal and Facilities Impacts:**

The above recommendations have the following fiscal impacts:

- 1) Reallocates the specific use of existing Audit Exception reserves identified for ADMHS. This does not require any additional general funds; however, these funds might otherwise be returned to the General Fund.
- 2) The County will be receiving a refund from the State for appealed audit disallowances from ADMHS prior year's DMH audits of reimbursable Medi-Cal services. There will be no use of General Funds; however, these funds might otherwise be returned to the General Fund.
- 3) Allocation to the Probation department of \$2.7 million will draw on the Strategic Reserve or general funds. It is expected that these funds will be required in FY 2012-13 and FY 2013-14.
- 4) It should be noted that if Medi-Cal related cost report settlement liabilities are not paid, the State will recoup these amounts from current Medi-Cal reimbursements that the County is entitled to.

**Staffing Impacts:**

There are no staffing impacts associated with this action.

**Attachments:**

**cc:**

Ann Detrick, Director ADMHS

Robert Geis, Auditor Controller