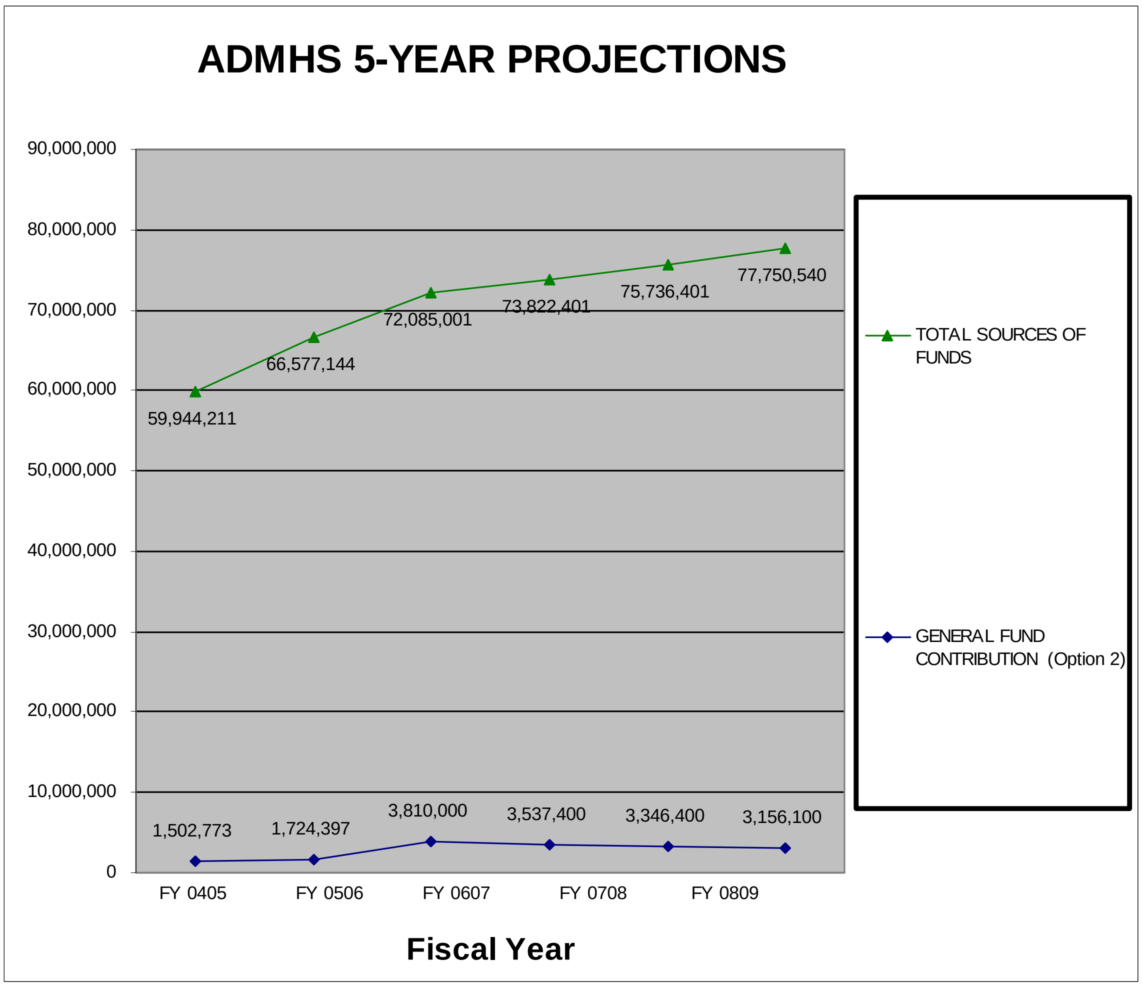
Five Year Forecast for the Alcohol Drug and Mental Health Services Special Revenue Fund

This five year financial forecast focuses on the combined changes in Revenue levels for Mental Health Services and Alcohol and Drugs Services part of the ADMHS Special Revenue Fund.

Executive Summary

The Department has been able to successfully operate the various programs offered by department with minimum reliance on the general fund. However, the lack of an adequate fund balance and the delay inherent in Federal and State payment disbursements requires the Department to rely on short-term borrowings from the general fund meet its operating expenses on an ongoing bases.
With the exception of the uncertain future of the Substance Abuse Crime Prevention Act (Prop 36) services, the revenue projections for the various ADMHS programs and the need for increased local funding will, for the most part remain relatively stable over the next five years.

Five-Year 2005-06 through 2009-10 Revenue Projections



Major Revenue Projection Assumptions

Sales Tax and Property Tax In-lieu of Motor Vehicle License Fees: Realignment Funds:

These revenues represent funding to the Department provide mandated Mental Health services. Based on historical data and the impact of the State economy on the availability of these funds, the attached projections reflect a conservative increase of 2% per year, over the next five years. From $8.3M budgeted in FY0506 to $8.9 projected in FY0910.

Medi-Cal/Early Periodic Screening Diagnosis and Treatment (EPSDT):

The projections reflect the Department's continuing effort to access one of the few remaining and still uncapped sources of funds to increase and fully leverage available matching State and Local funds. The Department plans to accomplish with the combination of improved technology (On-Line Progress Notes (OLPN) for documenting services, tracking of billable services rendered, timely staff feedback on billable services and improved coordination to identify eligible clients. Based on the most recent historical trends, the Department is projected to increase this funding source by approximately 5% per year. From $35M in FY0506 to $42M projected in FY0910.

Mental Health Services Act (MHSA) Prop 63:

The passing of the Mental Health Services Act – Prop 63 in November of 2004 represents a new source of funds for mental health services effective the current year FY0506. The allocation to Santa Barbara County was determined using an allocation formula that uses total population and identified unmet need. The Department will be required to comply with a number of very specific mandates related to the use of the funds for service delivery, including a mandate relating to nonsupplantation of existing program funding. Once the programs are approved, funds will be available on an ongoing basis. ADMHS has received notification of the initial annual allocation amount of $3.8M. The proposed plan was recently approved by the Board of Supervisors for submission to the State. The revenue projections reflect the impact of this new source of funds.

Substance Abuse Crime Prevention Act (SACPA) – Prop 36:

Proposition 36 was passed in 2000 to provide treatment services to non-violent drug offenders as an alternative to incarceration and to reduce public health risks associated with drug use. A recent analysis released by the State's Legislative Analyst Office (LAO) identifies the State's requirement to fund Prop 36 services as part of the Maintenance of Effort (MOE) obligation with the Federal government. However, reauthorization is yet to occur

Due to the uncertainty of the future availability of this funding source, ADMHS has identified three (3) alternatives for the continuance of these valuable services to the community. The annual impact of all three options has been analyzed and is presented for reference. The five-year projection reflects the impact of the preferred alternative – Option 2, on ADMHS and the County General Fund.

Option #2 assumptions;

Of the three Options evaluated, Option #2 was found to be the most likely and desirable alternative, while minimizing the impact to the Department, the general fund and most importantly the population served.

1) State does not reauthorize Prop 36 allocation

As noted above, the final determination of the reauthorization of the Act by the State or the requirement for service delivery has not been made at this time.

2) Program is reduced by 10% each year

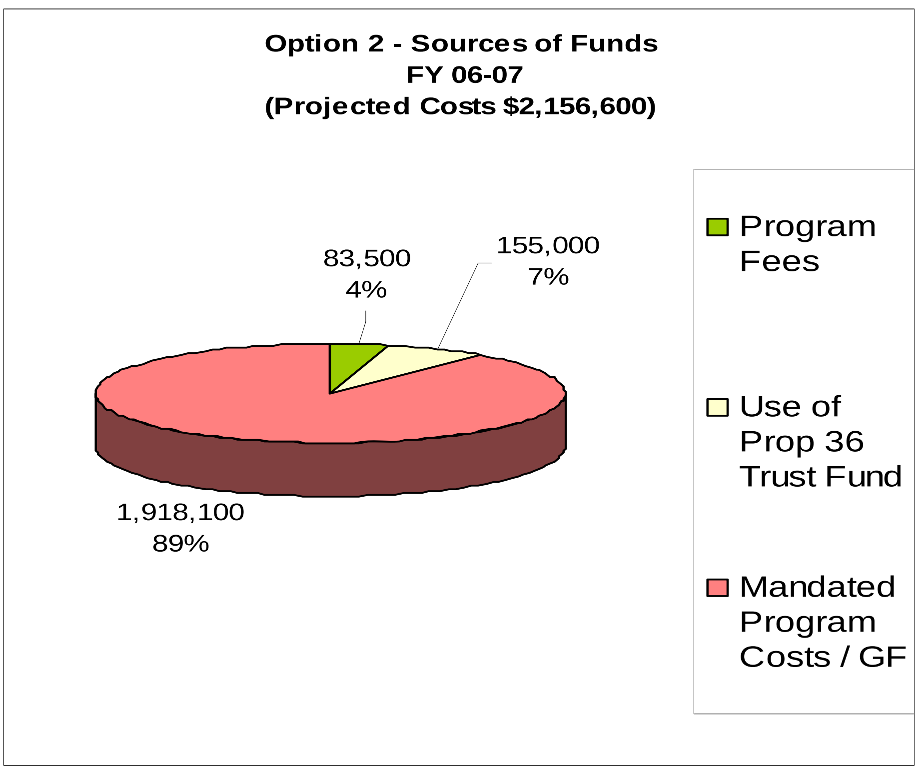
The proposed program reduction will be accomplished by working with service providers and assist in the identification of cost efficiencies, client referral process and program modification where possible.

3) Prop 36 Trust Funds exhausted over time and used to partially fund program

The Department currently maintains a trust fund specifically designated to fund ongoing Prop 36 treatment services. The current accumulated balance is approximately $716,000 The five year projection reflects the use of these funds at a rate of approx $155,000 per year will fully deplete the trust fund balance by year 5 (FY0910)

4) General Fund contributions are requested to fund mandated program costs

In addition to the above, the participation of the general fund to supplement and cover the projected funding gap of these potentially mandated services is a critical component. Taking into account the systematic decrease in program costs and the use of the designated trust fund balance, the projected request for local funding is reflected at $1.9M in FY0607 declining to $1.2M in FY0910.



County General Fund:

The current general fund contribution to the Department is $1.5M per year. The five-year projections reflect the following changes.

1. Effective FY0203, the increase in services to Medi-Cal/EPSDT eligible clients required a 10% local match. As instructed, the increased in services requiring a local match is computed using the base year service level (FY0102). This represents an increase in match of from $45k in FY0607 to $49k in FY0910 which is reflected in the projections.

2. Using Option 2 as the recommended alternative for the continuance of SACPA – Prop 36 services, required contribution from the general fund to subsidize projected funding shortfalls for these Mandated program costs will average approximately $1.6M per year, from a high of $1.9M in FY0607 reduced to $1.2M in FY0910.

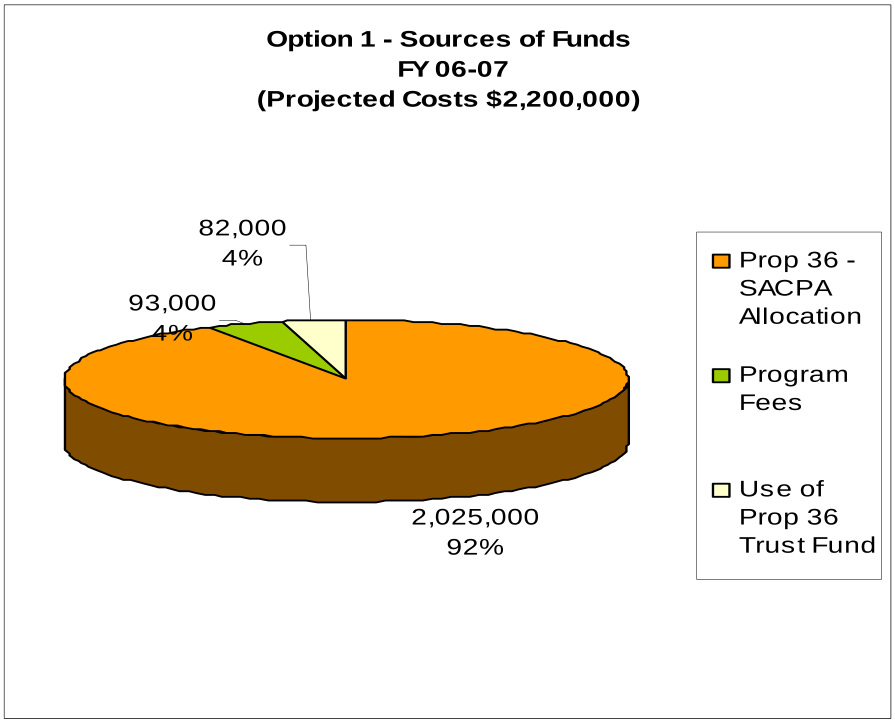
Other required contributions from the general fund including, Mental Health – Maintenance of Effort (MOE), local funding for emergency services response (MHAT) and local match for ADP programs, are projected to remain relatively stable.

<u>Other Funding Options Considered:</u>

Option #1: Assumptions:

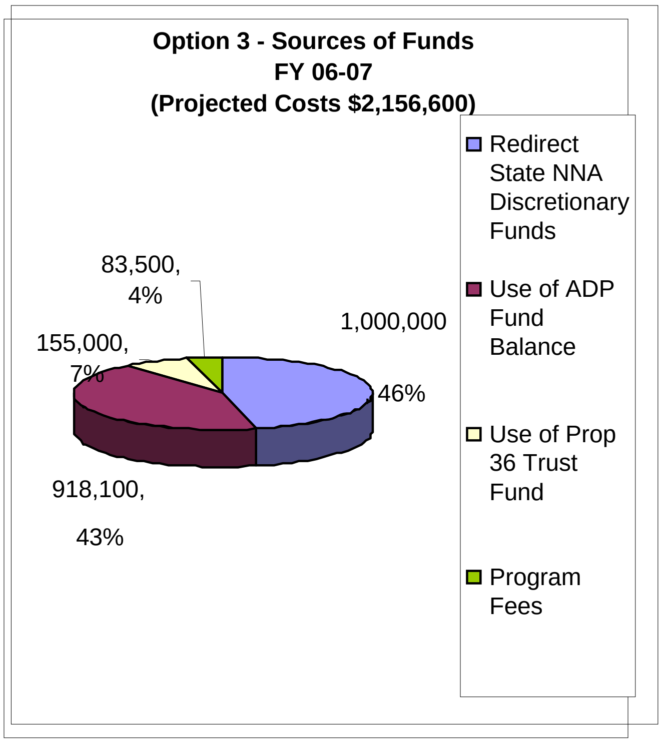
1. State reauthorizes SACPA - Prop 36 funding
2. State allocation and program level remains unchanged
3. No impact in required general fund contribution

Due to the uncertainty, at this time, that the State will take this action, basing future projections on this first alternative, the least conservative of the three options, creates an unrealistic expectation and reliance on the availability of future allocations and prevents the Department from planning accordingly for potential the loss of this funding.



Option #3: Assumptions:

1) State does not reauthorize SACPA - Prop 36 funding
2) Program is systematically reduced by 10% each year
3) Prop 36 Trust Funds exhausted over time and used to partially fund program
4) Alcohol and Drug Programs Fund Balance is used to partially program costs.
5) A portion of the Alcohol and Drug Programs (ADP) discretionary funds (NNA) are redirected to fund reduced SACPA program costs



Although the first three of the underlying assumptions under this option, are identical to those of the selected Option #2, the other alternatives explored here are the use of the ADP Designated Trust Funds with a balance of approximately $2.3M to fund a portion of the anticipated revenue shortfall for this program. This option projects that this balance will be fully exhausted at the end of year 5. This option creates and additional, flow-though impact to the ADMHS as a whole as it will increase and continue the need for short-term borrowings to cover operating costs on an ongoing basis. The proposed redirection of discretionary funds will require a change in the components of services available Countywide. The majority of these funds are currently allocated to community organizations and funding a variety of existing service needs in the community for which no direct funding is available. This option was not selected as it represents the least fiscally sound option, with a significant change in the services available in the community and therefore the option which most significantly impact to clients.