



**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: 2/18/14
Placement: Departmental
Estimated Tme: 1 hour
Continued Item: No
If Yes, date from:
Vote Required: 4/5 Majority

TO: Board of Supervisors
FROM: Department Takashi Wada, MD, MPH, Interim Director
Director(s) Alcohol, Drug and Mental Health Services
Contact Info: Michael C. Evans, CFO/Deputy Director, Finance 805-681-4517
SUBJECT: ADMHS Financial Status Update

County Counsel Concurrence

As to form: N/A

Auditor-Controller Concurrence

As to form: Yes

Other Concurrence: CEO

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- A. Receive and file a report regarding the financial status of the Alcohol, Drug and Mental Health Services Department (ADMHS);
- B. Approve a Budget Revision Request (BRR # 0003246) to Increase appropriations of \$1,257,218 in General County Programs General Fund for Other Financing Uses funded by a release of Contingency Committed fund balance. Decrease budgeted revenues of \$1,257,218 in ADMHS, Mental Health Fund in Intergovernmental Revenue-State and Charges for Services offset by an increase in Other Financing Sources.
- C. Direct the Department to return to the Board in May 2014 with further information on the Department's financial projections and implementation of budget adjustments, as appropriate;

Summary Text:

ADMHS continues to have a structural funding imbalance in the Mental Health Services Fund 0044 (Mental Health Fund) and faces the same issues as described previously in the March 2012 presentation to the Board of Supervisors, the Fiscal Outlook Reports for FY 12-13 and FY 13-14, the FY 12-13 and FY 13-14 budget hearings, and both the FY 13-14 first and second quarter Budget Update reports. This board letter provides a mid-year update on ADMHS' projected year-end financial status.

Background:

ADMHS is the County's Mental Health Plan designated by the State of California Department of Health Care Services (DHCS), to provide Specialty Mental Health Services to:

- Medi-Cal beneficiaries with specialty mental health needs; and
- To the extent resources allow, services to uninsured individuals who are:
 - Children with serious emotional disturbance;
 - Adults and older adults with serious mental illness.

ADMHS also provides Alcohol and Drug Program (ADP) Services to Drug Medi-Cal beneficiaries, court-ordered and grant participants.

ADMHS has aimed to preserve core elements of the local mental health system within the constraints of limited funding and regulatory requirements. Specialty outpatient programs were created with the implementation of the Mental Health Services Act (MHSA), passed by California voters in 2004. These programs are funded by the Mental Health Services Act Fund 0048 (MHSA Fund), which receives no General Fund Contribution.

During this time, ADMHS has faced a structural imbalance in the Mental Health Fund, driven by limited funding available to cover non-Medi-Cal reimbursable costs such as services to the indigent, homeless shelter and services costs, and costly inpatient services. ADMHS also has a history of problems associated with Mental Health Medi-Cal cost report settlements and audits. These two issues have resulted in the Department requiring more than \$30 million in General Fund/Strategic Reserve funding over the last 10 years above and beyond the annual General Fund Contribution allocation that is included as the part of the regular budgeting process.

2nd Quarter Update:

As of the end of the second quarter, ADMHS is projecting a \$4.0 million FY 13-14 budget deficit for the Mental Health Funds as follows:

Factors causing projected deficit	Projected Amount
Reduction in 2011 Realignment revenue (actual)	\$1.2 million
Increase in inpatient contract bed costs (projected)	\$1.6 million
Decrease in Medi-Cal revenue and increase in operational costs (projected)	\$1.2 million
Total Projected Deficit for the Mental Health Fund	\$4.0 million

Increase in inpatient contract bed costs (projected)

Actual costs for inpatient contract beds have exceeded the budgeted amount by \$512,000 through October 2013 and are projected to have exceeded the budgeted amount by \$857,000 through December (November and December costs are not yet finalized). Based on the average monthly deficit of \$143,000 and extrapolating it for the remaining six months of the fiscal year, the year-end costs associated with inpatient contract beds is projected to be \$1.6 million higher compared to the budget.

Unfortunately, the average monthly deficit for the first six months may not be representative of the last six months of the fiscal year, as inpatient contract bed usage is not correlated to historical usage. In fact, if we use the six-month trend line to project out the monthly deficit, the year-end projected deficit is projected to be \$2.2 million. This makes it extremely difficult to project the year-end costs compared to the budgeted amount. Therefore, ADMHS currently projects the year-end costs for inpatient contract beds to exceed the budget by an amount between \$1.6 million to \$2.2 million. ADMHS will provide a more accurate projection after the end of the third quarter of FY 13-14.

Decrease in Medi-Cal revenue (projected)

The Department has budgeted \$640,000 in additional Medi-Cal revenue in the Mental Health Fund due to Medi-Cal expansion associated with the Affordable Care Act (Health Care Reform) effective January 1, 2014. This amount was based on the number of ADMHS indigent clients who were projected to be eligible for the expanded Medi-Cal benefit and would be signed up for Medi-Cal during the first six months of 2014. There is concern that ADMHS may not achieve the level of revenue from the Medi-Cal expansion as projected, so ADMHS has included very limited Medi-Cal revenue (\$17K) from the Medi-Cal expansion in its mid-year projections based on the amount of services provided in the first week of January to clients who have signed up for the expanded Medi-Cal benefit.

Increase in operational costs (projected)

ADMHS is in the process of or has implemented several significant operational modifications associated with the System Change effort including: added limited-term supervisors to both our Outpatient and Inpatient programs in order to improve operational efficiencies, added 11 extra help staff in the second half of FY 13-14 to create regional teams to provide outpatient services to children who meet the Katie A. subclass definition, adding over \$500K worth of contract outpatient services for children who meet the Katie A. subclass definition (children with serious emotional disturbance who are subject to out-of-home placements by Child Welfare Services), as well as adding extra help staff to administratively support the System Change effort and to backfill for clinical staff who participate in the System Change effort.

ADMHS continues to face the ongoing challenge of improving the amount of time documented by our outpatient clinical staff for providing mental health services to our clients. This not only impacts our current year Medi-Cal provisional payments, but it also impacts the efficient use of our limited resources. In November 2013 ADMHS filled the Deputy Director of Clinical Operations position that had been vacant for more than four years. The Department is currently filling two of the three Regional Manager positions that are vacant. These efforts, in addition to adding three limited-term supervisor positions to the Outpatient programs, will start to provide a management and supervision infrastructure that will establish practice standards, set productivity standards and expectations, and hold both ADMHS staff and CBOs accountable for providing effective services in an efficient manner.

Taking the issues of the \$1.2 million reduction in 2011 Realignment for Behavioral Health revenue, the increased inpatient contract costs of \$1.6 million, the possibility of not generating the \$640,000 of Medi-Cal revenue projected from the Medi-Cal expansion, along with approximately \$560,000 in increased net operational costs associated with the System Change effort, ADMHS is currently projecting a year-end deficit of \$4.0 million for the Mental Health Fund. ADMHS will provide a more accurate projection after the end of the third quarter of FY 13-14.

Actions to Address Projected Deficit

ADMHS has worked with the CEO's and Auditor Controller's Office to explore different actions to address the projected deficit and recommends the following actions:

1. **Increase ADMHS' General Fund Contribution by \$1,257,218 to offset the loss of 2011 Realignment revenue and lower Medi-Cal revenue (Recommendation C).** The FY 13-14 General Fund Contribution was reduced by \$1,257,218 compared to the FY 12-13 amount due to the increase in 2011 Realignment revenue received in FY 12-13.
2. **ADMHS will continue to work to limit the increase in inpatient contract bed costs.** The Department is working on several long-term solutions to divert clients in crisis from being hospitalized out-of-county and to lower the overall costs associated with the Inpatient System of Care. These solutions include the creation of three regional Crisis Triage Teams that are funded by the SB 82 Triage Personnel grant of \$8.3 million over the next 4 fiscal years, the proposed establishment of a Crisis Stabilization Facility, the proposed establishment of a Crisis Residential Facility in South County, the proposed establishment of an inpatient psychiatric facility in Santa Maria in conjunction with Marian Regional Medical Center, and increased usage of Board and Care facilities. The Department will return in May to update the Board of Supervisors on the status of these proposed solutions.
3. **ADMHS will continue to monitor the level of its Medi-Cal revenue.** A portion of current year Medi-Cal revenue are provisional payments that are based on the level of services claimed to (and approved by) the State on a monthly basis. The cost settlement process takes place typically two years after the year of service, at which time the State determines whether the County received too much or not enough in provisional payments compared to the amount the County earned through the cost report. It is estimated that ADMHS earned at least \$500,000 more revenue than it received in FY 12-13 and we expect the same to happen in FY 13-14. The Department will return in May to update the Board of Supervisors on the status of its Medi-Cal revenue.
4. **ADMHS will continue to identify cost savings.** ADMHS has allowed some vacant administrative positions to go unfilled in an attempt to lower expenses. ADMHS has been in the cost savings mode for more than the last five years and there are not many cost saving opportunities, but management staff will continue to explore changes to operations that may result in additional cost savings. The Department will return in May to update the Board of Supervisors on the status of possible cost savings.

Fiscal Analysis:

ADMHS is currently projecting a year-end deficit of \$4.0 million in the Mental Health Fund and is requesting the use of \$1,257,218 from the General Fund Contingency Committed fund balance account to offset the projected deficit. This adjustment is consistent with the County's General Fund Allocation Policy as ADMHS' General Fund allocation was previously reduced when Realignment funding increased and is now being restored. The FY 2014-15 General Fund Allocation to ADMHS includes the restoration of the \$1,257,218 into their base GF Allocation. This will leave a projected year-end deficit balance of approximately \$2.8 million. ADMHS will return to the Board of Supervisors in May 2014 with an update on the Mental Health Fund's financial status and final recommendations to address the projected year-end deficit at that time.

Authored by: M. Evans

cc: