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DEPARTMENT OF MENTAL HEALTH

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July 27, 2006

TO: Each Supervisor

FROM: Marvin J. Southard, D.S.W.
Director of Mental Health

Susan Kerr for

SUBJECT: **PROPOSED LONG-TERM SOLUTION TO THE SHIFT OF FUNDS ISSUE IMPACTING MENTAL HEALTH SERVICES CONTRACTS**

On June 27, 2006, on motions of Supervisors Molina, Burke and Knabe, your Board instructed the Director of Mental Health to report back within 30 days with a long-term solution to the shift of funds issue raised by contract mental health providers. This issue relates to allowing contract service providers to shift County General Funds (CGF) dollars from an underutilized fund category within their contract to either match and draw down additional federal and State funding or provide more indigent care. This memo provides a status report on our discussions with the Association of Community Human Service Agencies (ACHSA), and staff from County Counsel, the Auditor-Controller (A-C), and the Chief Administrative Office (CAO) to develop a consensus recommendation to your Board regarding a long-term solution.

On July 24, 2006, my staff met with representatives from ACHSA and its member agencies, County Counsel, the A-C, the CAO, and Board Health Deputies to develop proposed contract language that would provide a mutually agreed upon resolution to the issue. I am pleased to report that proposed language was developed, and a Board letter will be filed within the next 30 days to request Board approval of the language so it can be amended into the 2006-07 contracts.

The language allows up to 15 percent of CGF to be shifted from one program to another without prior DMH approval, with the specific exception of funds that are categorical (i.e., CalWORKs). The language has been crafted with input from the A-C and County Counsel to ensure that there is no risk of exceeding the budgeted CGF and that all State, federal, and local requirements are met. We believe the proposed language addresses the concerns we raised in the attached report we submitted to your Board on June 26, 2006, identifying the pros/cons/impacts related to partitioning funding in mental health services contracts, as requested by Supervisor Molina on June 19, 2006.

Another key element of the proposed language is an agreement that any federal financial participation and Early and Periodic Screening, Diagnosis and Treatment (EPSDT)-State General Funds earned in excess of a contractor's Maximum Contract Amount (MCA) would be passed through to the contractor, subject to Board approval, no later than 30 days after the Department's reconciliation of the State's settlement. The State's settlement occurs approximately 18 to 20 months after the close of the fiscal year in which the reimbursable services were rendered. There would be no net County cost impact from this action as we would just be passing through federal and State funding. The contractor would have to clearly demonstrate that any required match dollars are available within the MCA.

The proposed language gives contractors necessary flexibility to deal with unanticipated changes in the client mix served by their agencies. In addition, shifts above the 15 percent can be requested through the current DMH approval process.

While the participants at the July 24, 2006, meeting believe that the proposed contract language, if approved by your Board, resolves the shift of funds issue for the foreseeable future, there was the recognition that the County's local match requirement for the Medi-Cal entitlement program, along with inadequate funding for an uninsured population that continues to grow, presents a longer-term challenge. The enactment in 1991 of the Bronzan-McCorquodale Act, referred to as "realignment," transferred financial responsibility to the County for the State's mental health programs, including Medi-Cal, with a local match requirement. The growth in realignment revenues flowing to the County from the State has been insufficient to fund the increasing local match dollar requirement resulting from serving more Medi-Cal beneficiaries without reducing available funding for indigent care. We plan to meet with your Health Deputies in the next two months to begin discussions on potential options to address the programmatic and funding issues related to this funding squeeze.

Please let me know if you need any additional information, or your staff may contact Susan Kerr at (213) 738-4108.

MJS:SK
GSK:tld

Attachment (w/o)

c: Executive Officer, Board of Supervisors
Chief Administrative Officer
County Counsel
Auditor-Controller
Health Deputies
Budget Deputies
DMH Executive Management Team
Bruce Saltzer, ACHSA