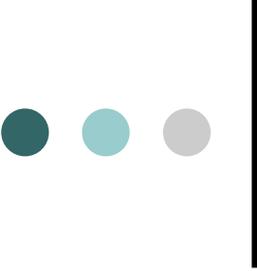


CMHDA All Directors' Meeting January 10, 2008

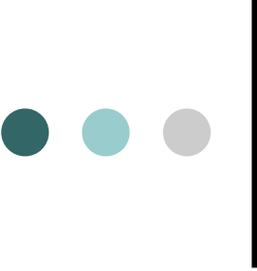
MHSA Fiscal Policies

California Department of Mental Health



MHSA Fiscal Policies

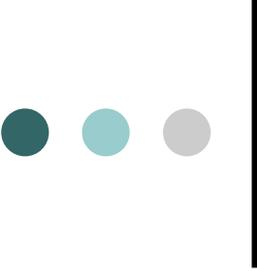
- Overview of MHSA Fiscal Policy Changes (DMH Info Notice 07-25)
- Example
- Suggested Next Steps



Overview of MHSA Fiscal Policy Changes

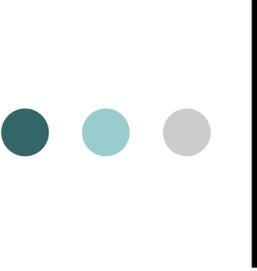
(DMH Info Notice 07-25)

- MHSA Agreement
- Payments to Counties
- Dedicated Funding for Components
- Local Prudent Reserve
- Unexpended Funds
- Funds Remaining in Planning Estimates
- Interest
- Local Program Sustainability
- FY05-06 CSS One-Time Funding
- Cash Management
- Reversion (Under Development)



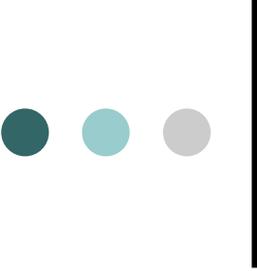
MHSA Agreement

- Contract will be in form of an MHSA Agreement with overarching document signed by BofS
 - Subsequent changes can be made without board involvement based on a plan update submitted by a county
- County discretion to delegate authority to local mental health director or designee
- Ability for county to assign funding to DMH for State-Administered programs
- Future distributions are contingent upon fully executed MHSA Agreement



Payments to Counties

- DMH moving to cash-based system whereby revenues accumulate prior to distribution
- Counties receive 75% of approved plan amount upon plan approval or at start of fiscal year whichever is later. Balance provided when required reports are submitted. (Cash Flow Statement and Revenue and Expenditure Report)



Dedicated Funding for Components

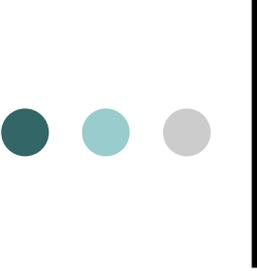
- Component funding is consistent with statutory timeframes

Funding for Each Non-Administrative Component

| Component | FY05-06 through FY07-08 | FY08-09 |
|--------------------------------------|----------------------------|---------|
| WET (WIC 5892(a)(1)) | 10% | 0% |
| Cap/Tech (WIC 5892(a)(2)) | 10% | 0% |
| PEI (WIC 5892(a)(3)) ^{a/} | 20% | 20% |
| CSS (WIC 5892(a)(5)) ^{a/b/} | 60% | 80% |

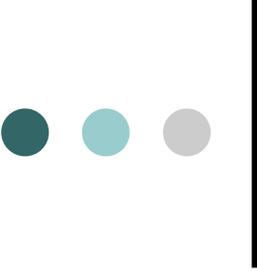
a/ 5% of total funding for PEI and CSS must be utilized for innovative programs (WIC 5892(a)(6))

b/ Beginning in FY08-09, CSS funds may be used for WET, Cap/Tech and a local prudent reserve subject to a 20% limit (WIC 5892(b))



Local Prudent Reserve

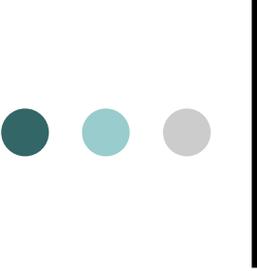
- Prudent reserve is maintained at local level in a clearly identified account
- Level is 50% of CSS approved funding level and should be fully funded by July 1, 2010—counties develop plan for funding
 - Unexpended and unapproved funding can be used to fund the prudent reserve—requires approved update to plan
 - Counties are not expected to reduce services below FY07-08 levels in order to fund the prudent reserve
 - Counties that cannot reach 50% level by July 1, 2010 should use future increases in planning estimates before expanding services



Local Prudent Reserve

(continued)

- County required to submit plan update in order to dedicate funds to prudent reserve
 - Department developing format that functions as plan update
- Prudent reserve can only be accessed when DMH determines that revenues are below recent averages adjusted for changes in the state population and the California Consumer Price Index (w/c 5847(a)(7))
 - Must be approved by DMH and incorporated into approved plan

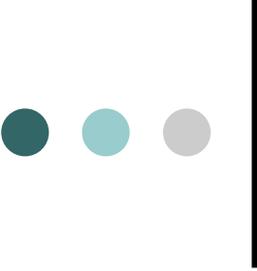


Importance of Local Prudent Reserve

- Planning Estimates would be decreased by more than 30% and total program expenditures would be decreased by 27% if historical revenue decreases reoccur
 - Three year period (2000-2002) revenues fell from \$1.2 billion to \$448 million (accrual basis) if tax had been in place
 - Took six years before revenues returned to 2000 levels
 - 50% prudent reserve would lessen but not totally mitigate the impact because reserve needed over multiple years
 - State would not be able to pay 75% at start of fiscal year

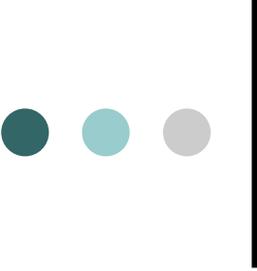
Hypothetical Economic Downturn

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2013-14 | Total |
|---|-------------|----------------|----------------|----------------|--------------|--------------|--------------|-------|
| Revenues-Accrued Basis | | | | | | | | |
| Accrued Revenues Percent Change from Prior Year | | 0% | -51% | -26% | 21% | 50% | 50% | |
| Cash Deposits | \$756 | \$756 | \$371 | \$276 | \$335 | \$503 | \$755 | |
| Annual Adjustment | \$380 | \$380 | \$186 | \$138 | \$168 | \$252 | \$378 | |
| Interest | <u>\$72</u> | <u>\$58</u> | <u>\$57</u> | <u>\$46</u> | <u>\$36</u> | <u>\$24</u> | <u>\$18</u> | |
| Total | \$1,208 | \$1,194 | \$614 | \$460 | \$539 | \$779 | \$1,151 | |
| Revenues-Cash Basis | | | | | | | | |
| Cash | \$756 | \$756 | \$371 | \$276 | \$335 | \$503 | \$755 | |
| Annual Adjustment | \$331 | \$331 | \$380 | \$380 | \$186 | \$138 | \$168 | |
| Interest | <u>\$72</u> | <u>\$58</u> | <u>\$57</u> | <u>\$46</u> | <u>\$36</u> | <u>\$24</u> | <u>\$18</u> | |
| Total | \$1,159 | \$1,145 | \$808 | \$702 | \$557 | \$665 | \$941 | |
| Cash Percent Change | | -1% | -29% | -13% | -21% | 19% | 42% | |
| Planning Estimate | | \$1,159 | \$1,043 | \$887 | \$798 | \$798 | \$798 | |
| Local Prudent Reserve | | <u>\$0</u> | <u>\$116</u> | <u>\$156</u> | <u>\$141</u> | <u>\$94</u> | <u>\$49</u> | \$556 |
| Total Program | | \$1,159 | \$1,159 | \$1,043 | \$939 | \$892 | \$847 | -27% |
| PE Percent Change | | | -10% | -15% | -10% | 0% | 0% | |
| Program Percent Change | | | 0% | -10% | -10% | -5% | -5% | |
| Cash at State | \$1,159 | \$1,145 | \$910 | \$725 | \$484 | \$351 | \$494 | |
| Percent of Cash Needs | 100% | 110% | 103% | 91% | 61% | 44% | 62% | |



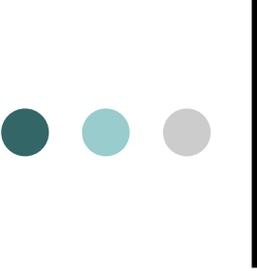
Unexpended Funding

- Unexpended funding represents funds that have been approved and distributed by DMH but have not been spent by the county
- Funds must be spent in accordance with an approved plan
- Counties have line item flexibility and flexibility among work plans/programs for costs consistent with approved programs
- Services funded in accordance with an approved plan are accounted for on a first-in, first-out basis
 - Oldest funds are used first
- Unexpended funds may be used to fund local prudent reserve
- Unexpended funds will be identified through the Annual MESA Revenue and Expenditure Report and the county will indicate how such funds will be used



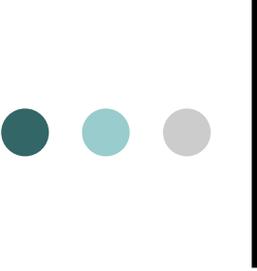
Funds Remaining in Planning Estimates

- Counties may request funds remaining in Planning Estimates (i.e., unapproved funds) for services and/or the prudent reserve
 - County must demonstrate sustainability if annualized MHSA amount will exceed 100% of the planning estimate that is the basis of the request



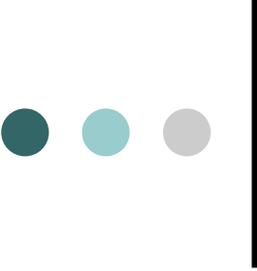
Interest

- Interest earned on funds in the local MHS Fund must be used for MHSA activities
- DMH will treat interest similar to unspent funds in that each county can use interest to fund services consistent with their approved plan or fund the prudent reserve



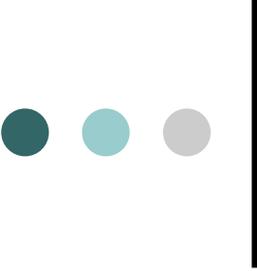
Local Program Sustainability

- County may submit a plan or plan update that exceeds fiscal year planning estimate as long as plan can be sustained
- DMH will consider interest, current and projected costs, caseload growth, anticipated increases in other revenues, whether the expenditure is non-recurring, and the impact of structural reforms



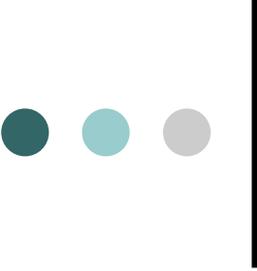
FY05-06 CSS One-Time

- DMH approved FY05-06 CSS funds for use on one-time activities now funded through other components
- DMH will no longer approve and fund the use of CSS funds for activities funded through other components
 - Funds approved as FY05-06 one-time must be spent by June 30, 2008
 - Beginning in FY08-09, counties have ability to use up to 20% of CSS funding for Capital Facilities/ Technological Needs, Workforce Education and Training, and the local prudent reserve
 - Can also used funding dedicated to the specific component
- FY05-06 CSS funds approved for one-time activities may be used on approved plan services



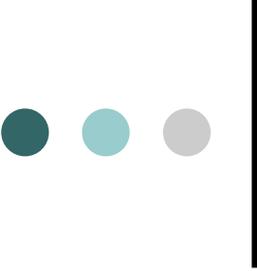
Cash Management

- Counties will identify unexpended funds through the Annual MHSA Revenue and Expenditure Report
- Counties will identify the use of unexpended funds through a Plan Update
 - DMH will consider unexpended funds available for services during the plan approval process
- Counties are permitted to maintain a local operating reserve equal to 10% of the most recent annual approved amount for CSS



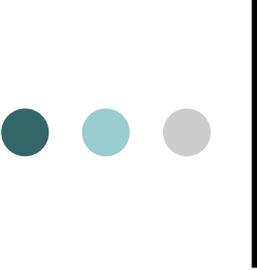
Reversion (still under development)

- *“Other than funds placed in a reserve in accordance with an approved plan, any funds allocated to a county which have not been spent for their authorized purpose within three years shall revert to the state to be deposited into the Fund and available for other counties in future years, provided however, that funds for capital facilities, technological needs or education and training may be retained for up to ten years before reverting to the Fund.”*
(WIC 5892(h))
 - DMH working on defining underlined terms



Hypothetical Funding and Expenditure Example

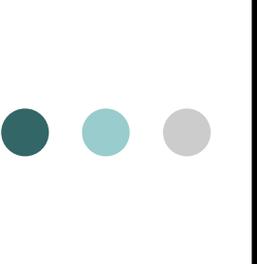
- MHSA Agreement Cover Page
- MHSA Agreement Exhibit A (Pages 1-7)
 - Page 1 – Planning Estimates
 - Published as DMH Information Notices and Policy Letters (see attachment)
 - Page 2 – Approved Amounts
 - Should correspond with DMH approval letters
 - Pages 3 through 6 – Distributions (one page for each fiscal year)
 - Should reconcile with payments from DMH
 - Top of columns are numbered to follow calculations
 - Page 7 – Summary of Distributions
- Actual Expenditures (Page 8)
 - Similar to amounts on Annual MHSA Revenue and Expenditure Report
- Reconciliation of One-Time Expenditures (Page 9)



Hypothetical Example

(continued)

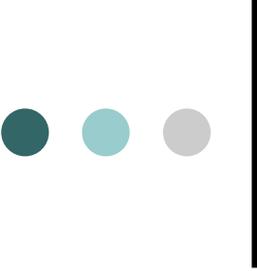
- Page 8 – Unspent funds are approximately \$1 million at end of FY06-07
 - Identified through Annual MHSA Revenue and Expenditure Report
 - All related to FY06-07 CSS distributions
 - Identify use of such funds when requesting FY08-09 funding through a Plan Update. Possible uses are:
 - FY07-08 costs in excess of previous approved amounts
 - Higher than anticipated costs and/or lower than anticipated off-setting revenues
 - Expansion of approved services
 - FY08-09 services
 - Local Prudent Reserve
 - Non-recurring expenditures such as start-up costs



Hypothetical Example

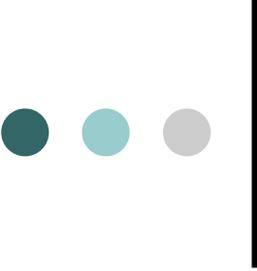
(continued)

- Page 9 – A County did not spend full amount approved for One-Time Technology Project
 - If project is not finished, A County may use funding dedicated to Technological Needs and/or a share of the FY08-09 CSS Planning Estimate to finish project
 - Include in either Technology Plan or FY08-09 CSS Plan Update
- Page 9 – A County did not spend full amount on approved Vehicles
 - If county needs additional vehicles, county may incorporate such request into future Plan Updates
 - On-going, monthly cost as part of operating budget (preferred)
 - Purchase if funding is available
 - Subject to DMH Plan approval
- Page 9 – A County did not spend all approved One-Time funds
 - A County can demonstrate on Annual MHSA Revenue and Expenditure Report that approved One-Time funds were spent on services consistent with the approved Plan



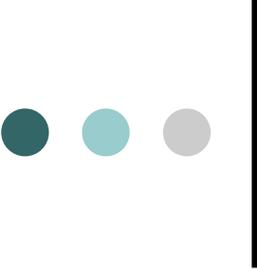
Hypothetical Example – Slow Start-Up (Page 10)

- Page 4 – Do not anticipate spending amount equal to what has been distributed
 - Actual and estimated expenditures through FY07-08 (page 10) are \$1,160,000 which is less than \$1,391,000
 - May request to dedicate difference (\$231,000) to local prudent reserve
- Page 2 – May request approval of unapproved FY05-06 Planning Estimate (\$29,000)
 - Request approval for prudent reserve
 - Prudent reserve balance would be \$260,000 (\$231,000 unexpended + \$29,000 unapproved)
- Page 10 – Unspent balance anticipated to be approximately \$3.2 million at end of FY07-08
 - \$231,000 of unexpended dedicated to local prudent reserve leaving \$3 million for CSS in FY08-09, prudent reserve and/or excess FY07-08 CSS costs



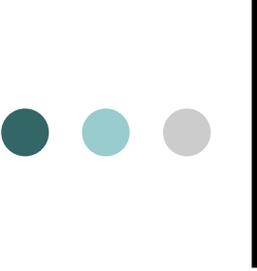
Hypothetical Example – Slow Start-Up (Page 10 Continued)

- Propose \$4.03 million Plan Update for FY08-09
 - \$2.5 million for CSS (equal to FY08-09 CSS Planning Estimate)
 - \$500,000 for additional housing
 - \$40,000 for IT
 - \$990,000 for local prudent reserve (to attain 50% prudent reserve balance of \$1.25 million)
- \$3 million of unspent funding from prior fiscal years would be available to fund FY08-09 CSS and additional housing
- Balance of unapproved funding from FY07-08 (\$1.345 million) available for local prudent reserve
 - \$645,000 from Exhibit A plus \$700,000 from FY07-08 augmentation
 - Balance of \$355,000 remains in FY07-08 CSS Planning Estimate
- FY08-09 planning estimate available for \$40,000 IT
 - Balance of \$2.46 million remains in FY08-09 Planning Estimate



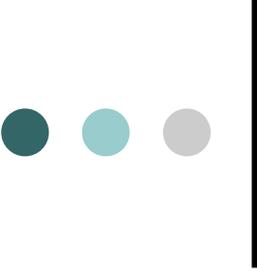
What's Next

- Additional guidance pending from DMH
- Suggested next steps



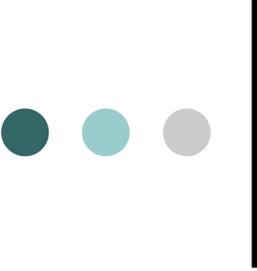
Guidance Pending

- Prudent Reserve
- Implementation Progress Report
- CSS—System Development Housing
- CSS FY 08/09 Update
 - 20%
 - Prudent Reserve Plan
 - Available funding
 - Planning Estimates for FY 08/09
- Component Guidelines
 - Capital Facilities and Technological Needs
 - Innovation
- Integrated Plan and Annual Update



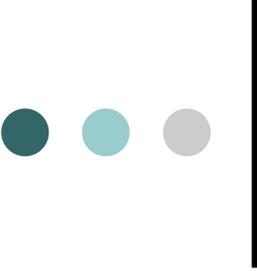
Suggested Next Steps

1. Sign and return MHSA Agreement to DMH
2. Submit Annual MHSA Revenue and Expenditure Report to DMH



Suggested Next Steps

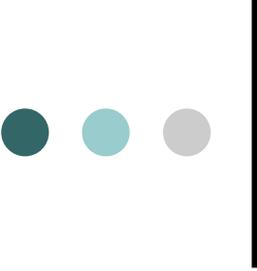
3. Determine how much money is available/for what/when
 - For each component determine
 - Planning estimate by year (MHSA Agreement Exhibit A page 1)
 - Unapproved amount by year (MHSA Agreement Exhibit A page 2)
 - Unspent funds available (as reported in Revenue and Expenditure Report)



Suggested Next Steps

(Continued)

4. Determine ongoing costs for CSS services—including increased cost of doing business

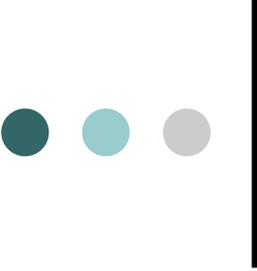


Suggested Next Steps

(Continued)

5. Develop strategy for end of one-time funding

- Unspent capital/technology, WET
 - Include in plans for those components
 - Include in FY 08/09 CSS plan as part of allowable 20%
- Incorporate other non-recurring costs into CSS program budgets



Suggested Next Steps

(Continued)

6. Develop plan for CSS Prudent Reserve

- Develop plan to achieve 50% of CSS funding level for prudent reserve by 7/1/10
- Not expected to decrease services in order to meet 50% level