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RE: Contra Costa County Mental Health Services Act (MHSA) Unspent Funds

Background

The California State Auditor has completed and released its report that evaluated the effectiveness of the Department of Health Care Services (DHCS) and the Mental Health Services Oversight and Accountability Commission (OAC) in providing oversight and guidance to counties in their use of MHSA funding. Among their findings the Auditor found that DHCS and the OAC could better ensure the effective use of these funds, and determined:

- Unspent Funds. The State had not issued regulations and policies to Counties to determine acceptable levels of reserves, or unspent funding levels. The Auditor determined that $2.5 billion in reserves for FY 2015-16 was excessive. This $2.5 billion represented approximately 18.1 months of MHSA revenue.
- Funds Subject to Reversion. The State had not developed a process for recovering MHSA funds from Counties after time frames for spending the funds had elapsed. The Auditor estimated that $230 million should have been reverted back to the State for redistribution.

Discussion

Unspent Funds. The Mental Health Services Act, as enacted in 2005, stipulates that counties are to establish a prudent reserve to ensure services do not have to be significantly reduced in years in which revenues are below the average of previous years (WIC Section 5892). This sound fiscal practice has been left up to counties to determine what level of reserve is prudent to ensure that existing programs can be sustained in future years. While MHSA revenues have been somewhat volatile over the years, revenues, in general, have exceeded inflation. This has put counties in the position of determining locally what level of risk to assume in budgeting more dollars than projected revenue. Currently no timetable for rulemaking by the State has been shared regarding appropriate unspent funding levels.

As of July 1, 2016 Contra Costa had a MHSA fund balance of $45,956,000, which includes $7,125,000 in Prudent Reserves and $2,753,000 in accumulated interest. In June of 2017 the Board of Supervisors authorized an average yearly budget of $51.3 million in the FY 2017-20 MHSA Three Year Program and Expenditure Plan that exceeded projected annual revenues of $45.3 million. Thus, in partnership with stakeholders, the County embarked on a Three Year Plan to spend down the County's MHSA unspent funds. In April of this year the State updated its MHSA revenue projections, and as a result Contra Costa has increased its projections to $47.7 million annually. The following multi-year table depicts actual and projected revenues, expenditures and the number of months of revenue that are projected to be in place by the end of the current Three Year Plan.

	FY 15-16	FY 16-17	FY 17-18 (proj)	FY 18-19 (proj)	FY 19-20 (proj)
Unspent Fund Balance	45,956,433	51,942,528	53,536,669	43,140,920	39,588,220
Expenditures	39,602,717	38,221,901	44,622,607	50,513,394	51,751,349
Revenue Received	32,528,256	42,471,302	46,216,747	47,242,893	48,198,649
Closing Balance as Months of Revenue	16.9	14.7	13.9	10.9	9.9

The table shows that Contra Costa is gradually reducing its unspent fund balance from approximately 17 to 10 months of revenue. This program and funding strategy was the culmination of an extensive Community Program Planning Process where stakeholders participated in determining service priorities and provided input on what level of funding reserves were prudent for the County's Three Year Program and Expenditure Plan. The new and additional funding for services has been budgeted for supportive housing, additional services for children and youth, expanding the capacity for mobile crisis response teams, and developing stronger support for family members and loved ones of consumers.

Complicating this issue is the "No Place Like Home" state legislation that will unilaterally divert over $2 billion from the State MHSA Trust Fund for permanent housing units for persons with mental illness. Affordable housing remains a Contra Costa priority, as it is a key element in quality mental health care. However, when fully implemented this state administered program is estimated to lessen disbursement to Contra Costa of over $2 million annually in MHSA funds for local mental health services. The impact of this factor on projected county MHSA revenues is unknown, but merits caution when determining what level of unspent funds to maintain.

Finding. In the absence of State rulemaking Contra Costa has a plan in place to maintain a prudent level of unspent funds.

Funds Subject to Reversion. In response to the State Auditor's findings the Governor signed into law Assembly Bill 114. This statute gives guidance on use of funds subject to reversion, and has been followed up by DHCS issuing Information Notices for Counties to send plans to spend by June 2020 any funds the State has determined to be subject to reversion. In December of 2017 DHCS Information Notice No.: 17059 determined that Contra Costa had $2,059,690 in 2009-10 Prevention and Early Intervention (PEI) revenue subject to reversion, and $167,226 in 2006-7 Workforce Education and Training (WET) revenue subject to reversion. Thus, since FY 2005-06 until the present the State has identified a total of $2,226,916 in MHSA funding that is vulnerable to reversion. Contra Costa's current MHSA Three Year Plan has already earmarked the unspent PEI funds to be spent on expanding the County's First Hope program to add additional staff to serve youth experiencing a first psychotic episode. In the WET category of Financial Incentives, the County has implemented a County funded loan repayment program to address critical psychiatry shortages. Thus all identified funds subject to reversion will be spent by June 2020. As per DHCS requirement this plan will be sent to the State by June 30 of this year as part of its annual MHSA Three Year Plan Update.

Finding. Contra Costa has a draft plan to spend by June 2020 all funds that the State has determined to be subject to reversion.

Contra Costa County has continued to responsibly manage its MHSA revenues, and, with stakeholder participation, has in place a Three Year Plan that not only maximizes spending for mental health services, but prudently plans for their sustainment in future years.