



March 21, 2018

RE: California Auditor's Report on State Oversight of Mental Health Services Act (MHSA) Funds

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. The Auditor found that the State could better ensure the effective use of these funds, and determined that 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 was excessive.
- 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.
- Had not provided guidance to Counties on how they should treat interest earned on unspent MHSA funds. It was estimated that Counties had accumulated \$80 million in interest on unspent MHSA funds.
- Had not enforced reporting deadlines for Counties to submit MHSA Revenue and Expenditure Reports.

As part of this audit three Counties (Alameda, Riverside and San Diego) participated. The Auditor determined that all three Counties allocated funds appropriately, and had no findings related to Counties monitoring projects effectively.

During and subsequent to the audit process with resulting report the County Behavioral Health Director's Association (CBHDA) has supported the findings and recommendations of the State Auditor, and welcomes further leadership and timely guidance from DHCS and the OAC regarding acceptable MHSA reserve levels. In addition, Assembly Bill 114, signed by the Governor last legislative session, gives guidance on use of funds subject to reversion, and has been followed up by DHCS issuing Information Notices for Counties to develop plans to spend by June 2020 any funds the State has determined to be subject to reversion.

Contra Costa County

Unspent Funds and Prudent Reserve. Table A of the State Auditor's report indicates that as of July 1, 2016 Contra Costa County 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 (\$51.3 million) in the MHSA Three Year Program and Expenditure Plan for FY 2017-20 that exceeded anticipated revenues (\$45.3 million annually) by an average of \$6 million per year. In partnership with stakeholders the County has already embarked on a Three Year



Plan to spend down the County's MHSA reserves to approximately \$25 million by July 2020. New and additional funding 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. 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 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, in general revenues, on average, have exceeded inflation. This has put counties in the position of determining what level of risk to assume in budgeting more dollars than projected revenue.

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.

Funds Subject to Reversion. 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. Contra Costa has chosen not to dispute these numbers, as the county'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.

Interest Earned on Unspent Funds. The statute resulting from the Mental Health Services Act is silent on the use of interest earned on unspent funds. In the absence of state rulemaking Contra Costa has treated annual interest earned as revenue to be spent each year on local mental health services, rather than allow the funds to accumulate.

MHSA Revenue and Expenditure Reports. Each year Contra Costa has submitted accurate revenue and expenditure reports within the time frames stipulated by DHCS, and is interested in the State Auditor's unstated methodology for determining that, "only one of the 59 local mental health agencies submitted its fiscal year 2015-16 annual reporting by the regulatory deadline."

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.