

# COUNTY OF LOS ANGELES – DEPARTMENT OF MENTAL HEALTH

## DRAFT

### PROPOSAL FOR BUDGET DEFICIT MITIGATION FISCAL YEAR 2007-08

#### INTRODUCTION: WHY WE FACE A BUDGET SHORTFALL

Over the past several years, it has been necessary for the Los Angeles County Department of Mental Health (DMH) to enact budget reductions. For Fiscal Year (FY) 2007-08, the Department is facing a deficit currently projected at \$24 million. This deficit is a result of a number of factors, including:

- Vehicle License Fees (VLFs) were significantly lower than projected
- FY 2006-07 budget mitigation efforts fell short of their targets
- Realignment funding available to support core services has remained flat
- The cost of providing services has increased
- Resources have had to be redirected to specialized program areas to ensure compliance with State, federal, and legal mandates
- Expansion of the Medicaid program as an entitlement has resulted in a corresponding decrease in dollars available for programs serving unfunded individuals and families

In addition to the deficit, in FY 2007-08, the State has de-funded Assembly Bill (AB) 2034. Further, the Department is required to spend new funding — i.e., Mental Health Services Act — on specific programs using State guidelines and approved by stakeholders. This funding cannot be used to supplant existing programs, even in the face of budget shortfalls.

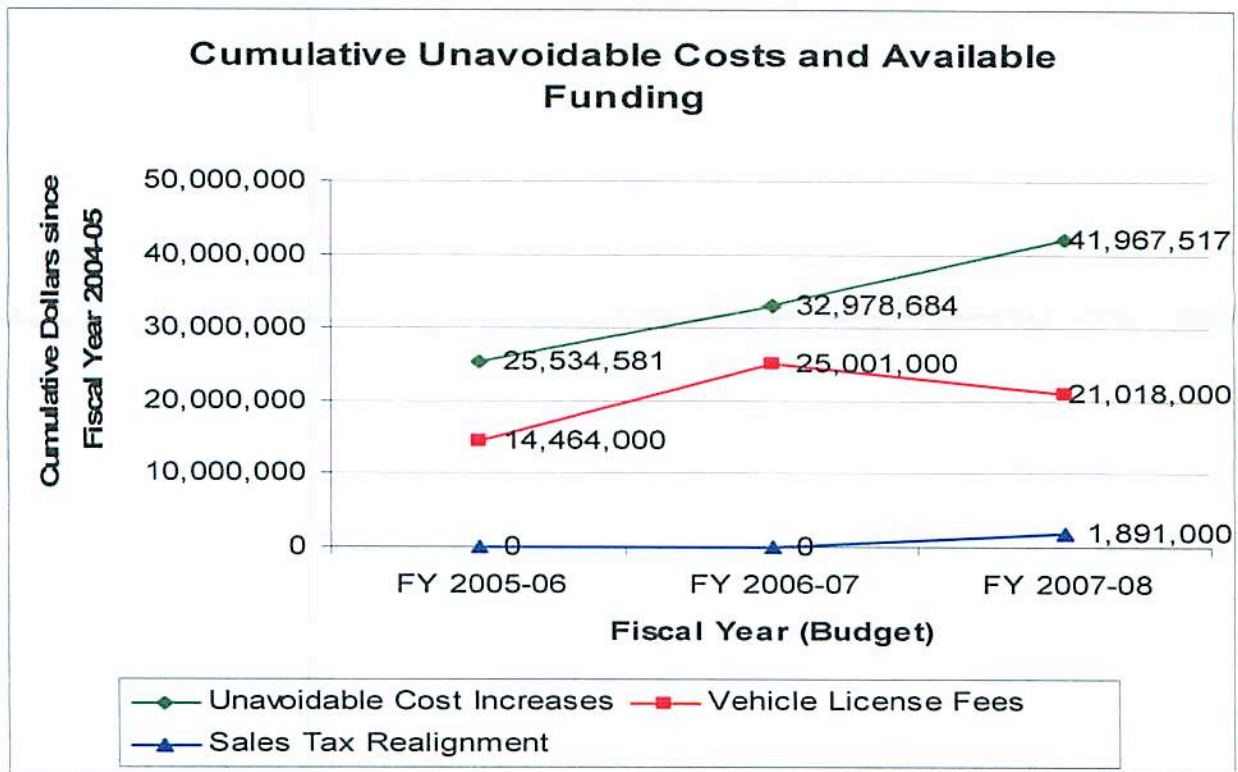
#### BACKGROUND: PLACING THE 2007-08 SHORTFALL IN CONTEXT

##### **Funding Issue: Flat Realignment Revenue Combined with Increasing Unavoidable Costs**

Realignment revenue, along with VLFs, provides the base funding for services to clients with no payor source and serves as the local match for federal dollars. There has been virtually no growth in the sales tax realignment funding over the past several years. VLFs, after experiencing some growth, have declined in FY 2007-08. At the same time, the Department continues to incur unavoidable increases in the cost of care.

The charts below illustrate the lack of growth in realignment and vehicle license fee funding with concurrent increases in unavoidable costs to the Department.

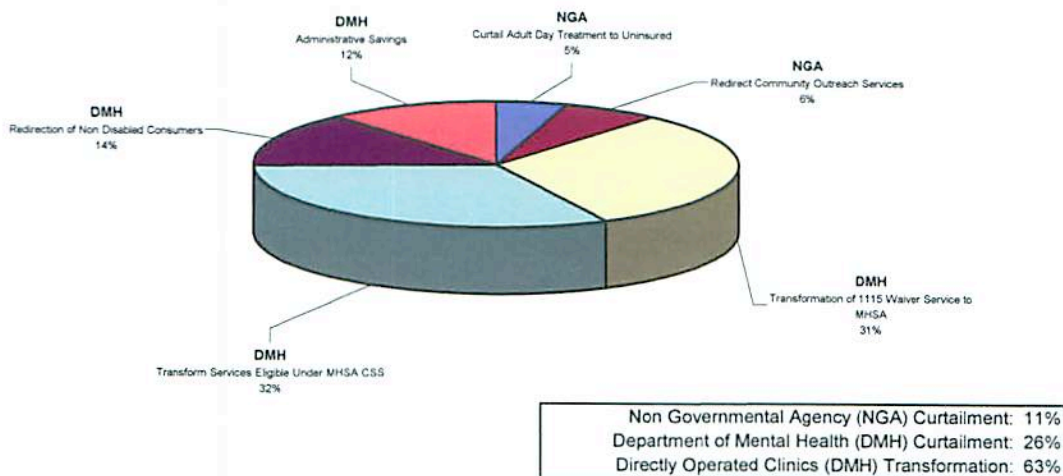
County of Los Angeles - Department of Mental Health Budgeted Amounts of Net County Cost and Sales Tax Realignment for 3 Years			
	FY 2005-06	FY 2006-07	FY 2007-08
Net County Cost:			
MOE	\$ 22,291,000	\$ 22,291,000	\$ 22,291,000
VLF	97,972,000	108,509,000	104,526,000
County Overmatch	24,887,000	29,468,000	20,584,000
<b>Total Net County Cost</b>	<b>\$ 145,150,000</b>	<b>\$ 160,268,000</b>	<b>\$ 147,401,000</b>
<b>Total Sales Tax</b>	<b>\$ 255,543,000</b>	<b>\$ 255,543,000</b>	<b>\$ 257,434,000</b>



**Deficit Reduction Policy Issue**

As a result of flat realignment and increasing cost of providing care, DMH has utilized a number of strategies in order to close the gap in the Department’s budget. The chart below reflects the proportionate share of deficit reduction strategies borne by various sectors of the mental health system during the 2006-07 budget mitigation effort.

FISCAL YEAR 2006-07 CURTAILMENT DMH vs. NGA



County of Los Angeles - Department of Mental Health Fiscal Year 2006-07 Actual Curtailment DMH vs. NGA		
Description	Amount	Total
Non-Governmental Agency (NGA)		
Curtail Adult Day Treatment to Uninsured	\$ 1,018,000	
Redirect Community Outreach Services	1,384,000	\$ 2,402,000
Directly-Operated Clinics		
Transformation of 1115 Waiver Service to MHSA	6,800,000	
Transform Services Eligible Under MHSA CSS	7,000,000	
Redirection of Non-Disabled Consumers	3,000,000	
Administrative Savings	2,500,000	19,300,000
<b>TOTAL</b>		<b>\$ 21,702,000</b>

It is often confusing to recognize that while reductions in some programs have occurred due to flat realignment and unavoidable cost increases, there has been growth in other programs – primarily due to the expansion in Early and Periodic Screening, Diagnosis and Treatment (EPSDT) and the influx of funding under the Mental Health Services Act. Further information about the growth in specialized programs is available through DMH.

**Proposed Budget Reduction Principles for 2007-08**

Based upon prior deficit reduction planning and discussions held with Los Angeles County stakeholders, the Department is proposing the adoption of the following principles for the budget deficit planning process in 2007-08.

1. A value endorsed throughout our recent stakeholder process is the importance of maintaining a balanced system. Therefore, reductions must be made across the entire system including DMH and Contracted programs. Administrative and non-clinic based services are not exempt. However:
  - Costs incurred by directly operated programs will be absorbed solely by DMH (e.g., COLAs).
  - Prior year reductions not achieved by contract programs will be absorbed by contract providers (e.g., non-categorically funded Community Outreach Services (COS) curtailments).
2. Indigent care must be preserved at some level in all areas of the County.
3. DMH – both within its directly operated and contract programs – will focus on preserving those programs that do the greatest good for the greatest number of Los Angeles County residents as possible, given the funding that is available.
  - Resources that may be redirected or transformed should be.
  - Services that are less efficient and effective may be reduced.
  - Programs that are potentially revenue offset but that are not fully utilized may be reduced.
4. Legally mandated programs will be preserved to the level of those mandates.
  - Jail and juvenile justice programs will be maintained.
  - Services will be implemented as planned in response to the Katie A. settlement agreement.
  - Office of the Public Guardian services will be maintained.
5. Entitlement programs are not exempt from resource oversight and management, as funding for even these programs is not unlimited. Managed care principles may be used to ensure existing resources are distributed as equitably and efficiently as possible across the system, with consideration for the needs of special populations.