**COUNTY OF SACRAMENTO**
**CALIFORNIA**

For the Agenda of:
November 7, 2017
Timed Item: 11:00 A.M.

To: Board of Supervisors

From: Department of Health and Human Services

Subject: Report Back On Potential Use Of Mental Health Services Act Funds To Support Additional Services for Individuals With Serious Mental Illness Who Are Experiencing Homelessness

Supervisorial District: All

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**Overview**

The Department of Health and Human Services (DHHS) has reviewed the Sacramento County Mental Health Services Act (MHSA) funds and programs. This review was completed to clarify information regarding unspent funds. Unspent funds are the closing balance of any given fiscal year and may be committed or budgeted for subsequent year expenditures. They must be expended within the designated component timeframes in accordance with the law. In fact, no Sacramento County unspent MHSA funds are reserved for long-term or future obligations outside of the allowable timeframes for each component.

The review was also intended to assess current plans and priorities with the objective of ensuring that the County's Mental Health Plan has capacity to meet the mental health treatment needs of individuals (ages 18 and older) who are homeless or at risk of homelessness and living with a serious mental illness. There are five components within MHSA. Funds for the mental health treatment services for this population would come from the Community Services and Supports (CSS) component.

Key findings to date of this review are as follows:

- MHSA funds available to the County are generally spent within the designated timeframe (typically three years, depending on MHSA Component). There is no accumulating balance of aging funds. A review of historical spending patterns demonstrates that DHHS has consistently spent approximately one-third to one-half of its previous year's closing balance each year. This closing balance is replenished by incoming annual MHSA revenue.
- The revised FY2016-17 closing balance/unspent funds is estimated at $127 million. This differs from the earlier estimate of $98 million which was based on information available in December 2016. The current estimate of $127 million reflects actual revenues received in FY2016-17, as well as estimated expenditures (versus budgeted).
- None of these unspent funds are reserved for future planned obligations beyond the allowable timeframes for each component. For example, none of the $36.8 million projected to be needed for services associated with the No Place Like Home program

beginning in FY2021-22 are in the unspent funds, and there is no reserve for that future obligation. Of the $22 million that the County projects will be needed in the coming years for refinancing of permanent supportive housing, none is reserved in the unspent fund balance. The County has budgeted $15 million in expenditures over the next three years to housing authorities in support of the refinancing, which will come from incoming annual revenue.

- Funds are utilized within each MHSA component within the three-year allowable timeframe.
- There is no reversion risk in the MHSA Community Services and Supports (CSS) component from which treatment programs may be funded that would meet the needs of homeless individuals living with severe mental illness. Current State projections of unspent MHSA funding that counties may have to return to the State (also referred to as AB114) have not been validated, and no methodology for supporting those estimates has been released. DHHS staff estimate that approximately $8.4 million of County MHSA funds are at risk of reversion in the Prevention and Early Intervention (PEI) and Innovation (INN) components. This differs from the draft figure of $11.4 million published by the State. Plans for a new proposed innovation project, Behavioral Health Crisis Services Collaborative, are currently under development and would address the reversion risk in the INN component. Similarly, plans to address PEI funding at risk of reversion will be expedited to address this issue.
- Current revenue and expenditure projections indicate that MHSA programs will have an operating deficit (expenditures exceeding annual revenues) in FY2018-19 and for the foreseeable future, resulting in significant reductions in the unspent funds/closing balance each year through at least FY2022-23. New spending commitments must therefore take into account the risk that existing programs may not be sustainable past that year. The City of Sacramento's request of $54 million over three years would redirect MHSA funds from sustaining existing mental health treatment programs and activities and would leave the MHSA CSS component overspent with a negative balance by FY2021-22.

**Recommendation**

Based on careful recalibration of immediate and future commitments and an analysis of existing programs, staff recommends that the Board:

- Direct staff to engage the MHSA Steering Committee to plan expansion of MHSA program to support Countywide efforts to expedite services for individuals with serious mental illness and/or co-occurring substance use disorders and are homeless or at risk of becoming homeless.
- Direct staff to specify mental health treatment program models appropriate for the target population, with stakeholder input, projecting numbers of individuals that could be served for up to $11 million annually, including Federal Medi-Cal match, totaling $66 million over six years. The recommended expansion is based on the estimated cost of mental health treatment services for the identified population, recognizing that mental health services would be needed at different levels of intensity and potentially delivered by both the Specialty Mental Health Plan and the Managed Care Plans. The actual gross cost of these expanded services is valued at approximately $11 million annually, as $7 million in MHSA funding will be used to match and leverage $4 million in Medi-Cal reimbursement (see Attachment 2 – County Proposal). Such an MHSA initiative would be an addition to the County's ongoing specialty

mental health services currently provided to homeless individuals utilizing a variety of funding sources, including MHSA.

- Direct staff to utilize the existing stakeholder input process, including the MHSA Steering Committee structure, to ensure stakeholder involvement is included in the development of this revision to the existing MHSA Plan, as required by law. All new planning will be conducted in alignment with the statutory requirement that the Mental Health Board conduct the required public hearing on any new or revised MHSA plan at the close of the 30 day posting period. DHHS staff should bring such an MHSA Plan revision to the Board of Supervisors for approval at the earliest possible opportunity.
- Direct staff to focus available PEI funding, including any potential AB114 reversion dollars in this category, where appropriate, on needs of children and youth under age 25 with a specific focus on programs that help foster youth experiencing serious emotional disturbances. Such programs should focus in particular on youth involved with multiple child serving systems, such as child welfare and probation systems to improve resiliency and life opportunities.

**Measures/Evaluation**
None.

**Fiscal Impact**
MHSA funds are subject to revenue volatility. Expansion of programs will result in faster draw on MHSA fund balance. Commitments to new programming will present future risk to sustaining of existing programs and readiness for new challenges. Expansion of programs will result in increased costs to non-MHSA funded sectors of the program across the entire mental health and substance use disorders continuum of care**.** Example: current inpatient bed usage reflects a 7% usage by Full Service Partnership (FSP) clients ($1.5 million). These type of non-MHSA costs will likely increase.

## BACKGROUND

Proposition 63 was passed by California voters in November 2004 and became known as the Mental Health Services Act (MHSA). MHSA authorized a tax increase on millionaires (1% tax on personal incomes in excess of $1 million) to develop and expand community-based mental health programs. The Statewide goal of MHSA is to build out a historically underfunded mental health delivery system to provide treatment and other interventions to reduce the long-term negative impact of untreated mental illness. Funding projections are published by the State and since the passage of AB100 in 2011 and AB1467 in 2012; funding has shifted to monthly distributions based on taxes collected. In 2011, plan/update approval authority shifted from the State to local Boards of Supervisors. A community planning process for all components of MHSA spending is required by the Act and takes place through a variety of stakeholder involved meetings. Sacramento County has fulfilled all existing requirements. In Sacramento County, the Mental Health Services Act (MHSA) Steering Committee meets on a monthly basis; the Mental Health Board participates in the MHSA Steering Committee, receives regular updates on all MHSA activities and holds public hearings as required by the law for every annual plan update prior to presentation to the Board for approval as required by the Act. Consistent with MHSA mandates and past practice, a 30-day posting of each Draft Plan/Update and Public Hearing also take place prior to requested action by the Board of Supervisors. The Plan/Update will be incorporated into the County budget.

There are five MHSA funding components: Community Services and Supports (CSS), Prevention and Early Intervention (PEI), Workforce Education and Training (WET), Innovation (INN), and Capital Facilities/Technology Needs (CF/TN). The purpose, scope and funding restrictions applicable to each component are governed by California law and code. Local funding is distributed and tracked according to each component's requirements and timelines for spending. (Each component's requirements and time limitations are detailed in Fiscal Year 2016-17 MHSA Annual Update on page 88 and Board letter of March 21, 2017).

In Sacramento County, as is the case across California counties implementing this Act, MHSA funds, within the legal and fiscal stipulation of the components of the Act, are used as match and leveraged with other federal funds and grant funds to maximize local programs services. All funding streams are monitored and audited for compliance. In August 2013, the California State Auditors Office included Sacramento County in its four county sampling of the MHSA program performance. Extensive program, budget and fiscal documents were provided to the auditors. There were no findings of improper use of MHSA funds for Sacramento County. The State Department of Health Care Services (DHCS) conducts annual audits of the Medi-Cal program. Since many MHSA-funded treatment programs are part of the local Medi-Cal program, these costs are also reconciled through this process, and revenue and expenditure reports are finalized when completed. DHCS is currently auditing FY2010-11 Medi-Cal cost reports. While incoming MHSA revenues are not impacted, the MHSA expenditures for past years and unspent funds/closing balances are impacted and reconciled once audits are completed and final.

**Fund Balance Considerations:**

Unspent Fund Balance is an item included in the MHSA FY2016-17 Annual Update. Based on revenue estimates available up to December 2016 and budgeted expenditures, $98 million was the estimated closing balance of unspent funds published in the approved FY2016-17 MHSA Annual Update finalized March 21, 2017. Since then, new information has become available. Actual revenues in FY2016-17 came in higher than expected and estimated expenditures are lower than anticipated, resulting in a revised estimated unspent fund/closing balance of $127 million for FY2016-17. In addition, DHCS released new MHSA revenue projections, as well as a new allocation and methodology for distribution of MHSA funding on September 12, 2017. Sacramento County's percentage of the statewide allocation is 3.2986% for FY2017-18, a change from 3.2625% in FY2016-17. These latest State projections reflect higher incoming revenues for FY2017-18 and FY2018-19. Revenue estimates and projections are made by different responsible entities at different times of the year and budget cycle for different purposes. For example, DHCS, State Controller's Office, and Legislative Analyst Office develop projections. Like other counties, Sacramento County works with a fiscal consultant to review the revenue projections both through the statewide County Behavioral Health Directors Association (CBHDA) and directly with a fiscal consultant to determine what level of expansion/growth is sustainable given all the changing factors.

Unspent funds are the closing balance of any given fiscal year and are held in the local account. Unspent funds may be committed or budgeted for subsequent year expenditures and must be expended within the designated component timeframes in accordance with the law. No unspent MHSA funds are reserved for long term or future obligations outside of the allowable timeframes for each component.

Attachment 1 – MHSA Overview provides a chart of MHSA fund history and projections from FY2013-14 to FY2022-23. The following important notes apply to this chart:

- For each year, the column notes whether the figure is *actual, estimated or projected*. In FY2016-17, while revenues are actuals ($62,110,495), expenditures ($46,339,690) are still estimated, as local expenditure reconciliation is still in progress. The Table reflects reduced expenditure projections by $10 million in FY2017-18 to $61 million assuming full implementation of new/expanded programming started in FY2014-15 will not be realized until the FY2018-19.
- **Annual adjustments** are included in revenue for FY2013-14 through FY2017-18. No annual adjustments are included in revenue projections for FY2018-19 through FY2022-23. The annual adjustment is an annual reconciliation by the State of the MHSA distributions compared with actual personal income tax collected for MHSA. Since MHSA revenues are volatile, annual adjustments can swing dramatically in either direction. State projections in this area have been unpredictable, as experienced in FY2015-16. Based on the State projections, the County anticipated receiving $8-9 million for the annual adjustment; however, the actual adjustment came in at only $172,000.
- **No Place Like Home (NPLH),** the Permanent Supportive Housing (PSH) initiative for building housing for persons with serious mental illness, will take 7% of the MHSA allocation off the top for all counties to fund the NPLH bonds. The exact date for this reduction in revenue is not known as NPLH is in the court validation process. This table leaves out that reduction that may potentially occur as early as FY2020-21. The impact of this revenue reduction may be estimated in the $3-4 million range. In addition, the table does not reflect the NPLH treatment services commitment which is anticipated to be $2.3 million annually for a period of twenty years beginning as early as FY2021-22.
- **Prudent Reserve** amount of $19,291,847 remains the same throughout the calculations. Access to the prudent reserve is specified in Welfare & Institutions Code (WIC) 5847(b)(7), which requires the State action to activate when revenues in the MHSA fund are below recent averages adjusted by changes in the state population and the California Consumer Price Index. The County cannot act unilaterally to access its prudent reserve without all those conditions in place. The County can access the Prudent Reserve only when the State determines that the County has met the specific criteria as articulated in the WIC. Sacramento County should not consider these as usable/available funds when reviewing unspent funds/closing balance even though they are required by law to be held for activation under specific circumstances.
- **Reversion funds** subject to AB114: Preliminary State estimate of pre-2017 funds are included in the unspent fund balance. While the State has released a draft number for Sacramento County of $11.4 million across PEI and INN components, that figure does not tie to local records and the reports submitted to the State. Since no County has been able to tie back the draft numbers, counties are awaiting DHCS methodology to reach agreement on information. In the meantime, Sacramento County has reached out to DHCS to reconcile differences.

Sacramento County has prepared and submitted MHSA revenue and expenditure reports to the State, as required. Prior to AB114, the State has not had a mechanism in place to revert funds from counties. In addition, in 2016 the State significantly shifted the approach to calculating reversion for the Innovation component.

**DISCUSSION**

Based on the most recent actuals, estimates and projections in MHSA funding, different strategies and opportunities may be considered with accompanying impacts. Budgeting discussion is presented in the following three categories:

***Unspent Fund Balance:*** A review of historical spending patterns demonstrates that DHHS has consistently spent approximately one-third to one-half of its previous year's closing balance each year. This closing balance is replenished by incoming annual MHSA revenue. The result is that MHSA funds available to the County are generally spent within the designated timeframe (typically three years, depending on MHSA Component). There is no accumulating balance of aging funds.

Funds are utilized within each MHSA component within the allowable timeframe. The only exception applies to the funds identified by AB114 as at risk for reversion – due to an unusual set of circumstances where State guidance was contradictory and/or missing to enforce the Act. DHHS staff and the Mental Health Services Act Steering Committee engage in substantial planning efforts to ensure that funds will be available to sustain ongoing program commitments. Those plans rely on future revenue projections, not revenue on hand. Incoming revenues are combined with unspent funds to sustain previously approved MHSA-funded programming and activities.

The estimated unspent funds/closing balance for FY2016-17 is $127.6 million. This differs from the December 2016 estimate of $98.6 million due to actual revenues received and estimated expenditures in that fiscal year. This is an estimate, as the year-end reconciliation process is still in progress.

Sacramento County's unspent fund balance represents the closing balance of unspent funds based on revenue estimates and projected expenditures. The CSS component is used as an example to describe how revenues are managed within the three years permitted for spending incoming revenue in the unspent fund balance. The first funding received is the first funding spent each year. This means that within the allowable spending timeframe for that component, the oldest revenue received is applied first to expenditures in any given year resulting in a waterfall process that ensures that funds are expended before they are at risk of reversion.

***Current Program Expansion Impact*:** In FY2014-15, Sacramento County identified the need to expand CSS component programming by $16 million annually based on increased revenue projections released by the State. These expansions included:

- Expansion of existing homeless New Directions Full Service Partnership and Guest House Homeless Programs;

- Expansion of six other adult programs under system development efforts (Four Regional Support Teams; TCORE; peer programs, and Rio Linda Crisis Residential Program for adult consumers of mental health services).

- For children's programs, expansion of the Juvenile Justice Diversion Treatment Program (JJDTP), development of a new Transition Age Youth (TAY) Full Service Partnership and other system development programming for Commercially Sexually Exploited Children and Youth (CSEC) were completed.

These programs are all budgeted as expenditures; however, they are in various stages of implementation. Slower than anticipated implementation, siting, hiring and operational factors have impacted this expansion by providers, with some programs experiencing workforce shortages and difficulties in minimizing turnover of staff in a highly competitive healthcare market. These factors are being experienced statewide in both behavioral health and primary care sectors. As these providers and the new Urgent Care Clinic (anticipated to open in November 2017) become fully operational, these expenditures will be fully realized in FY2018-2019 and beyond. Any mental health treatment related requests related to additional capacity expansion for any new population will impact the CSS component.

***Permanent Supportive Housing Investments:*** Between 2008 and 2013, the County used $15.7 million in MHSA funds to help finance the renovation or development of 161 permanent supportive housing units in eight affordable housing projects totaling 602 units. MHSA dollars were used for the following purposes:

- $6.217 million was provided to the California Housing Finance Agency (CalHFA) or the Sacramento Housing and Redevelopment Agency (SHRA) to create Capitalized Operating Subsidy Reserves (COSRs) to help cover the difference between projected annual project operating costs and revenues over 15 years; and

- $9.5 million was provided to CalHFA or SHRA to help cover the gap between capital and other development costs and available resources, such as Redevelopment, tax credits or other funds.

These projects were developed with the expectation that they would be refinanced in 15 years. The following table identifies each of the eight projects and indicates the amount of original MHSA investment, when refinancing will occur and when a commitment of County funds will be needed to move forward with the refinancing.

| | Ardenaire | MLK Jr. Village | Y.W.C.A | Boulevard Court | Folsom Oaks | Mutual Housing at The Highlands | The Studios at Hotel Berry | 7th & H | Subtotal |
|---|---|---|---|---|---|---|---|---|---|
| Total Units | 53 | 80 | 31 | 74 | 19 | 90 | 105 | 150 | 602 |
| MHSA Units | 19 | 30 | 11 | 25 | 5 | 33 | 10 | 28 | 161 |
| Year Built | 2008 | 2008 | 2009 | 2011 | 2011 | 2011 | 2012 | 2013 | |
| COSR | $ 800,000 | $ 524,000 | $ 600,000 | $ 2,000,000 | | $ 1,800,000 | $ 450,000 | | $ 6,174,000 |
| Capital/Dev. | | $ 463,568 | | $ 2,650,000 | $ 1,610,000 | $ 2,975,000 | | $ 1,800,000 | $ 9,498,568 |
| Total MHSA | $ 800,000 | $ 987,568 | $ 600,000 | $ 4,650,000 | $ 1,610,000 | $ 4,775,000 | $ 450,000 | $ 1,800,000 | $ 15,672,568 |
| Year Refinancin | 2023 | 2023 | 2024 | 2026 | 2026 | 2026 | 2027 | 2028 | |
| Year Commitme | 2021 | 2021 | 2022 | 2024 | 2024 | 2024 | 2025 | 2026 | |

When these projects are refinanced it will be necessary replenish the COSRs, based on updated estimates of the gap between annual operating costs and other operating revenue for each project over the next 15 to 20 years. In addition, it will likely be necessary for the County to provide additional funds to address the gap between capital refinancing costs and available resources.

At this point, it is not possible to know with certainty what amount of funding will be needed to replenish the various project COSRs or bridge any development cost gaps. These costs could be the same, higher or lower than the original development amounts. If funds are not available when needed, however, the County would lose the MHSA units in these projects and possibly jeopardize overall project viability. The $20 million is an estimate of need based on the original MHSA commitment to these projects, adjusted for inflation and certain other factors. In the past, Redevelopment Agencies were a major source of revenue for affordable housing projects, and that source is no longer available, which could require a greater contribution by the County to bridge the development cost gap. On the other hand, to the extent project-based housing vouchers can be provided for a project, the COSR amount could potentially be reduced.

To ensure that sufficient funds are available to cover both COSR replenishment and development gap costs when refinancing occurs, the County's approved MHSA Plan calls for transferring $5 million a year for four years (for a total of $20 million) to FHA and SHRA, starting in FY2016-17. $5 million was already transferred to FHA in FY2016-17 and the table in Attachment 2 assumes that the remaining $15 million will be transferred between FY2017-18 and FY2019-20. The decision to transfer the $20 million now rather than later, is based in part on the fact that the money is available now and, if it is committed to other programs instead, it will likely not be available when it is needed. According to staff at CalHFA some counties take this approach, and counties that don't sometimes find themselves scrambling for funds when the time comes to refinance. In addition, any funds transferred to CalHFA and SHRA and not needed for project refinancing can be used to help fund new supportive housing projects.

**Impact of Shifting Projections/Priorities**

If less conservative projections are made when projecting future spending or revenue, additional funds may be made available in some years for high-priority spending. For example, if revenue growth exceeds 2% annually, or if actual expenditures are significantly lower than budgeted expenditures, there is an opportunity for additional spending. Similarly, a policy decision could be made to remove planned expenditures over the next three years for refinancing/operating reserve for existing permanent supportive housing units. That would produce additional funds during those years. Either approach produces significant risk that the County would need to identify County General Fund or realignment funds to fill gaps and sustain programs if the revenue/expenditure assumptions are not accurate. In the case of the housing funds, the risk is even more significant, because General Funds would have to be identified to meet the housing obligations and also to sustain any programming begun during the three years that the housing funds are diverted. Clients identified during the period of the Whole Person Care grant cannot be left without treatment at the end of that project; if the diverted housing refinancing funds are used during that period, other County funds would have to be identified to sustain treatment for those clients.

**AB114, Reversion and Local Planning and Fund Balance Management:**

The 2017 State legislative session enacted through a budget trailer bill (AB114), specific parameters and direction for MHSA reversion of funds. To date, while reversion language existed in statute, no mechanism or tracking per component has been provided to Counties. These changes establish a codified approach to MHSA reversion for both the past and the future, thereby providing continuity and predictability to counties moving forward. AB114 provides a one-time resolution for past years, while specifying that future reversion will retain the purpose of the funding as initially specified. For example, in the future, PEI funding will stay as PEI funding when reverted. The following are the changes that are effective immediately:

- Approximately $274 million in statewide MHSA funds will stay in counties' local accounts, rather than revert for redistribution. For fiscal years prior to FY2017-18, the state will be publishing instructions for counties to follow. This involves verifying and validating numbers, and requiring counties to submit a plan by July 1, 2018, to prevent pre-2017 reversion. Counties will have until 2020 to expend the funds, with an exception for small counties with populations under 200,000 where two additional years to expend these funds is permitted.

- The start date for all counties' MHSA Innovation funds to revert will be based upon the date the county's MHSA Innovation plan is approved by the Mental Health Services Oversight and Accountability Commission (MHSOAC).

- Starting in FY2017-18, unspent MHSA funds that are reverted will be reallocated to other counties, and will be required to be expended on the category of funds which they were initially allocated (e.g., Innovation funds reverted must be spent on Innovation services).

- There is no retroactive application of AB114 to counties as long as a plan is developed by July 1, 2018, and spending is completed within the timeframe given.

The following are the AB114 implications and impacts for Sacramento County:

DHCS provided the California Behavioral Health Directors Association (CBHDA) draft estimates of funds subject to pre-2017 reversion by county by component. In that document, $11.4 million was identified as subject to pre-2017 reversion for Sacramento County -- $5.8 million in the PEI component and $5.6 million in the INN component. DHCS will be issuing further guidance to counties regarding methodology utilized to calculate the *draft numbers* and an appeal process for counties to reconcile local and state records. The published annual revenue and expenditure reports (ARER) to support the draft numbers do not include all local revised documents sent to DHCS over the listed period. The ARER is a point in time with revisions necessary once local provider cost reports are reconciled before final County ARER can be submitted. Further, inclusion of the Innovation component in the reversion table is based on changes enacted in 2015 by DHCS, which illustrates how complex the guidance around this subject has been. Irrespective of the challenges to the past implementation, Sacramento County is confident that reconciliation of the number will be completed in a timely manner and estimates the local reversion risk at approximately $8.4 million.

AB114 requires Counties to follow a stakeholder process to develop the pre-2017 reversion spending plan. County staff are confident that the work currently underway in the local planning process will result in a spending plan to address this timeline. The Innovation project under development and efforts to expand focused services to the foster care population would be two potential areas for attention after MHSA stakeholders deliberate all existing needs. PEI funding requires 50% to be dedicated to services under age 25, making the initiatives for children central to this planning.

**Outlook/Future: Identified Needs and Priorities**

During the October 17 presentation, specific future programming and obligations were listed, leaving the impression that funds are earmarked now to meet such future obligations. It is important to note that the current Plan calls for such future obligations to be met from funds available at that time, not from the existing fund balance. There are no funds reserved in the fund balance for long-term obligations. Sacramento County is expending MHSA funds within the designated timeframes for each component (e.g. three years for CSS component), as allowable by MHSA. For example, there are no funds reserved for services to be provided to the clients who may participate in the No Place Like Home housing program. In fact, the projections provided in the various analyses attached to this report do not include any projected expenditures to address this future need.

The following clarifications explain the assumptions irrespective of what the fund balance is in any given year. In some cases, the plan is to sustain projects initiated with short-term MHSA funds by transferring them to other MHSA components. The CSS component of MHSA is the funding category that by law permits this transfer of funding to sustain programs in other MHSA components. Once transfer to another component occurs, the timelines for that component apply. Even where such transfers are planned, no funds in the fund balance are reserved for this purpose.

1 **Refinancing Existing Supportive Housing Obligations**: As previously discussed, MHSA funds have been used over the past 10 years to develop 161 MHSA units for persons with serious mental illness in eight different property developments. These developments have Full Service Partnership level mental health service support and are seen as models for best practice and for the future No Place Like Home (NPLH) housing initiatives. The refinance obligations come due over the next 10 years. CSS funds were originally used for these capital costs. County staff have reached out to SHRA, CalHFA and other housing subject matter experts to confirm that the projected funding is accurate. Given that when these projects were built, redevelopment funds were available, and while each projects' capitalized operating subsidy reserve (COSR) may be different, $22 million was the anticipated refinance expectation. The CSS component is the only component that has the flexibility to make this capital transfer. These programs were originally built and financed with MHSA CSS funding and remain part of that component, albeit as a capital refinance obligation. The funding table reflects $5 million per year in CSS funding expenditures in FY2016-17 through FY2019-20 for a total of $20 million for the purpose of refinancing these investments.

2 **Electronic Health Record (EHR):** MHSA programs must conduct business within the changing electronic communication environment. The local EHR is utilized by providers and county alike to administer the MHSA program. Ongoing sustainability of the EHR is essential and an estimate was made for $15 million over five years. This is included in the funding table as an expenditure of approximately $3 million per year transferred from CSS to CF/TN component funding.

3 **Innovation Project #2 & #3:** INN Project #2 Mental Health Urgent Care Clinic is a project that is launching in Sacramento in November 2017. Innovation Project #3 Behavioral Health Crisis Services Collaborative is in development for submission for approval to both the Mental Health Services Oversight and Accountability Commission (MHSOAC) and Board of Supervisors. It involves a Crisis Collaborative in partnership with Dignity Hospital and Placer County. In submission of an Innovation project for approval to the MHSOAC, Counties are asked to address their sustainability plan and must respond to MHSOAC Commissioners in this area. Should planning for innovation project sustainability not be addressed directly using MHSA CSS funding, successful innovation projects could be sustained with other local funds, including Realignment and General Fund and other local private funding, if applicable to the design. Given that MHSA is being utilized for the innovation project at inception, County staff made an assumption that sustainability would come from the MHSA CSS funding stream. These two projects are critical to the local crisis continuum and have been top priorities for a wide range of local community stakeholders – hospitals, constituents, providers to name a few interested parties and have been championed by the Board. The term for INN Project #2 ends in FY2022-23 and is therefore included in a plan for sustainability beyond that period with CSS funding – This is reflected in the Attachments as a $3 million CSS expenditure in FY2022-23. Proposed INN Project #3 is not included in these projections at this time.

4 **No Place Like Home:** Sacramento County is preparing for its participation in NPLH when this Permanent Supportive Housing initiative for persons with serious mental illness clears the court validation process. Depending on the size of commitment for housing projects, Sacramento County calculates $2.5 million in MHSA CSS revenues per 100 clients. NPLH treatment commitment is for a minimum of 20 years of treatment services – mental health (inpatient and outpatient, as needed) and substance use disorders as needed (at any level of treatment need). A $36.8 million calculation is based on 16 years at $2.3 million per year. It is included only to demonstrate future commitment needed. It is not included in the projection table and an assumption is made that the annual state distribution adjustments will offset these additional costs in those years after NPLH implementation.

**Other Countywide Identified Needs:**

Through the MHSA planning process and numerous other stakeholder meetings, countywide needs for services are identified. These need to be considered alongside decisions to prioritize allocation of funding. Some of the initiatives interface and interplay with a focus on homelessness and others do not. Most notably MHSA's focus is the persons with serious mental illness – a subset of the entire homeless population.

The following areas have been identified as service needs:

- Services for foster care youth who have serious emotional disturbances; significant planning is needed to address design appropriate level of intervention when child welfare takes action and mental health supports are needed.

- Loss of First 5 funding in existing MHSA PEI Hearts for Kids program where redesign of the MHSA early intervention work will be needed.

- Improved interface and coordination with education system, probation and crisis services for youth with serious emotional disturbance when they are touched by another child serving system.

- Mobile Crisis Support Teams (MCST): While four MCSTs are currently funded in Sacramento, these teams are still not countywide in breadth. The cities of Elk Grove and Rancho Cordova have requested consideration for partnering to also benefit from this type of programming.

- Sustainability of SB82 Triage Navigator Grant that currently funds 21 FTEs in Emergency Departments, Jail, and Loaves and Fishes. This is a MHSOAC grant which ends July 1, 2018. To date, MHSOAC released guidelines do not include funding for sustaining these mental health navigators. Impacted programs will be every local Emergency Department as well as the Jail and the Loaves and Fishes complex.

- Expansion of existing PEI programs that focus on reaching out to age specific or ethnically and culturally sensitive strategies for changing community. For example: Arabic has been identified as a new threshold language in Sacramento County.

- Expansion of existing PEI programs that deliver peer run or family centered services.

- Expansion of crisis behavioral health services.

- Correctional health interface either through expansion of Mental Health Court or other interventions to reduce recidivism and diversion from jail.

- Planning underway for housing redevelopment of the Courtyard Inn development at 3425 Orange Grove Avenue, North Highlands. Treatment services would be comparable to those of other existing PSH units.

- Countywide homeless initiatives that require mental health services and supports at different levels of service need. These include the full service rehousing shelter as well as the flexible supportive rehousing program. In addition to the County initiatives, the City of Sacramento has requested mental health and substance use services to support the Whole Person Care (WPC) pilot. Attachment 3 – City of Sacramento Request shows the potential financial impact of this request.

**County Proposal Framework – Basis for Size and Cost**

The 2017 Point In Time count shows a total homeless population in Sacramento County as 3,665. Chronic homeless count is 1,126. The Substance Use and Mental Health Services Administration (SAMHSA) estimates 20-25% of the homeless population has a serious mental illness and Housing and Urban Development (HUD) estimates 20%. While the precise count cannot be calculated, using these estimates as a guide, we are calculating up to 1,500 homeless individuals living with serious mental illness in Sacramento County. Of the 1,500 individuals, up to 700 may already be in service; some may qualify and receive services through the managed care plans (which serve low to moderate service needs); and others may not yet be in care. Using the assumption of 1,500 individuals, staff is recommending expanded capacity to 200 additional Full Service Partnership (FSP) enrollments and 600 additional enrollments in other level of care programming within the Specialty Mental Health Plan. All these individuals would be receiving enhanced housing supports and services through the WPC pilot and Countywide initiatives. This recommendation assumes $11 million gross annual cost with $7 million annually in MHSA CSS funding, as well as increased psychiatric inpatient and substance use treatment costs (see Attachment 2 – County Proposal).

**Anticipated Future Substance Use Treatment Programming**

In addition to mental health funding, the County is also pursuing the Drug Medi-Cal Organized Delivery System Waiver with the State. This waiver will increase the availability of multiple levels of substance use disorder treatment, which is an important component of the behavioral health service delivery system necessary to address the needs of the homeless population. That decision will come to the Board for consideration later this fiscal year.

## FINANCIAL ANALYSIS

The tables contained in Attachment 1 – MHSA Overview reflect the actual revenues and expenditures for FY2013-14 through FY2015-16. FY2016-17 is a revised estimate as year-end reconciliation is still in progress. FY2017-18 through FY2022-23 contain revised projections.

Attachment 2 – County Proposal contains tables reflecting the recommended $7 million expansion in the CSS component as previously described in this report. The gross cost for this level of service would be approximately $11 million annually for a total of $66 million over six years ($7 million in MHSA and $4 million in Federal Medi-Cal match annually). While the table only reflects projections through FY2022-23, this would be an ongoing commitment to fund these services.

Attachment 3 – Request from City of Sacramento contains tables reflecting the WPC request from the City of $54 million over three years ($18 million per year). This scenario is silent on sustainable funding beyond the three year period and shows that MHSA CSS funding would be overspent with a negative balance in FY2021-22.

Respectfully submitted,

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APPROVED:
NAVDEEP S. GILL
County Executive

By: ______________________________
PAUL G. LAKE,
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Attachments:
Resolution
Attachment 1 – MHSA Overview
Attachment 2 – County Proposal
Attachment 3 – City of Sacramento Request