CALIFORNIA DEPARTMENT OF
Mental Health

1600 9th Street,, Sacramento, CA 95814
(916) 654-2309

March 13, 2008

DMH INFORMATION NOTICE NO.: 08-07

TO: LOCAL MENTAL HEALTH DIRECTORS
LOCAL MENTAL HEALTH PROGRAM CHIEFS
LOCAL MENTAL HEALTH ADMINISTRATORS
COUNTY ADMINISTRATIVE OFFICERS
CHAIRPERSONS, LOCAL MENTAL HEALTH BOARDS

SUBJECT: MENTAL HEALTH SERVICES ACT (MHSA) REVERSION POLICY

REFERENCE: IMPLEMENTATION OF THE MHSA, WELFARE AND INSTITUTIONS CODE (WIC) SECTION 5892 (h)

This Department of Mental Health (DMH) Information Notice clarifies DMH's policy related to the reversion of funds as required under the Welfare and Institutions (WIC) Code, Section 5892 (h). DMH is currently developing regulations regarding this policy and wants to provide initial guidance to counties as they continue to implement MHSA components and programs. The term "County" means the County Mental Health Department, two or more County Mental Health Departments acting jointly, and/or city-operated programs receiving funds per WIC Code Section 5701.5.

Section 5892 (h) of the WIC Code requires, within specified parameters, the reversion of funds previously allocated to counties. Specifically WIC Code Section 5892(h) requires:

> *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.*

Generally, reversion will occur when either:

(1) a county does not gain approval within the specified time period for all the funds made available through the Planning Estimates for a specific purpose; and/or,

(2) a county's total expenditures over the entire reversion period in a specific category identified in the MHSA Agreement are less than the amount distributed to a county for that specific category for the year in question.

If a county gains approval and receives a distribution of all funds made available through a FY Planning Estimate for a specific component and the total expenditures over the reversion period (i.e. 3 years or 10 years) exceed the FY distribution for that component, funds will not revert. However, expenditures used to determine if funds revert may only be applied once and may not be used to avoid future reversions.

For example, assume a county has a Planning Estimate for the Community Services and Supports (CSS) component of $1 million in FY 05/06. The county would need to obtain approval on the use of the entire $1 million prior to the end of FY 07/08 or the unapproved funds remaining in the Planning Estimate would revert. Further, assuming the county obtained approval and received a total distribution of $1 million in FY 05/06 funds for services under the CSS component, if the county's total expenditures in the CSS component under the Services category for the period FY 05/06 through 07/08 do not exceed $1 million, FY 05/06 funds distributed to the county that exceed the total of funds expended in the period FY 05/06 through FY 07/08 would revert.

More specifically, reversion is governed by the definition of terms contained in WIC Code Section 5892 (h) as discussed below.

<u>Funds Allocated to a County</u> and <u>Years for the Purpose of Reversion</u>

Counties are notified of the level of available MHSA funding by DMH through the publication of an initial Planning Estimate. Each county is provided a separate Planning Estimate for each of five major components of the MHSA and Planning Estimates are specific to a Fiscal Year.

DMH develops Proposed Guidelines and each county must conduct a local planning process and submit a Three Year-Program and Expenditure Plan or plan update to the State for approval detailing the use of the funds available and the total amount of funding requested. The State approves all or parts of the plan or plan update and distributes funds consistent with the approved plan.

The period used to calculate reversion will begin concurrent with the start of a State Fiscal Year. Additionally, for purposes of reversion, funding will be considered "allocated" to a county when the Proposed Guidelines and Planning Estimates are published and funds are available to each county for distribution. If Planning Estimates and Proposed Guidelines are published:

- prior to the start of the Fiscal Year, funds would be "allocated" at the start of the Fiscal Year to which the Planning Estimate applies;
- in the first quarter of the Fiscal Year to which the funds apply, funds would be considered allocated at the start of that Fiscal Year.
- after the end of the first quarter of the FY to which the funds apply, funds will be considered allocated, for the purposes of calculating reversion, at the beginning of the ***following*** FY.

For example, considering FY 07/08 funds, if for a specific component, the Planning Estimates and Proposed Guidelines for FY 07/08 are published in April 2007, funds would be considered “allocated” effective July 1, 2007. Likewise, if Planning Estimates are published in April 2007, but the Proposed Guidelines for this same period are not published until August of 2007, funds would still be considered allocated July 2007. However, if Planning Estimates are published in April 2007, and the Proposed Guidelines for this same period are published in October 2007, although funds would be available for distribution to the counties effective October 2007, for the purposes of calculating reversion, funds would not be considered allocated until July 2008. (see Enclosure I for detail on Reversion Periods for Previously Released Funds).

Funds Spent

The MHSA specifically requires that reversion apply to funds which have not been spent. The California State Controller’s Office (SCO), in their publication, *Accounting Standards and Procedures for Counties*, defines expenditures as funds distributed to a county which are either (1) actually expended or (2) accrued expenditures. Accrued expenditures are expenditures (and their associated liabilities) incurred and recognized in the accounting period in which they occur, regardless of whether or not the payment of expense is made. The DMH is not redefining what constitutes an expenditure since county Auditor-Controller’s are required to follow SCO guidance as well as Generally Accepted Accounting Principles (GAAP) and Government Accounting Standards Board (GASB) Statements in preparing county financial statements. The county should only consider funds expended if their Auditor-Controller would consider the transaction an expenditure for the purpose of financial reporting in accordance with GASB Statements and GAAP.

For purposes of reversion, spent includes MHSA Funds which are actually expended or are accrued prior to the end of the reversion period. MHSA funds encumbered through a contract, purchase order, or other written agreement are subject to reversion if an expenditure has not occurred (i.e., the encumbrance has not been liquidated) in the accounting period to which reversion is being applied and the total expenditures for the three or ten year period are less than funds distributed for the year in question.

For example, assume the accounting period under consideration for reversion is FY 05/06. Assume further a county has entered into a contract to purchase furniture for a treatment facility using FY 05/06 MHSA CSS funds. If the county:

- receives the furniture, is invoiced and pays the invoice in FY 07/08 these funds would be considered expended.
- receives the furniture in FY 07/08 is invoiced and pays the invoice in FY 08/09, these funds would be considered an accrued expenditure.
- receives the furniture in FY 08/09 is invoiced and pays the invoice in FY 08/09. The FY 05/06 funds originally encumbered for the contract would not be considered spent in the reversion period and reversion would apply if the total CSS expenditures in FY 05/06 through FY 07/08 were less than total CSS distributions from FY 05/06.

Authorized Purpose
The MHSA mandates the creation of five specific allowable activities (i.e. components) that must be funded under the Act and mandates specific percentages of funding for these components in initial years. Funding is made available to counties through Planning Estimates that are specific to these five components. DMH establishes specific required activities within the funding for these components and requires the county to submit specific budget detail in their Plan for activities within the components. Likewise, DMH provides specific detail of the county's approved component budget in the county MHSA Agreement and requires the county to report specific budget detail and expenditures in required fiscal reports.

After FY 07/08, the Act mandates that dedicated funding for specific components (Workforce Education & Training and Capital Facilities and Technological Needs) cease. However, the MHSA allows these activities to be funded from remaining percentage set-aside for Community Services and Supports up to a specified limit.

The Act mandates that funds for CSS as well as funds authorized for Prevention and Early Intervention are subject to a three year reversion period, but that funds authorized for Capital Facilities, Technological Needs or Education and Training may be retained for up to ten years before reverting to the Fund. Under this policy, these reversion timeframes would apply to both funds set-aside for these specific activities in the initial years of the Act as well as funds designated for these activities from the CSS component. However, under this policy, funds designated for Capital Facilities, Technological Needs or Education and Training from the CSS component must be designated in the FY they are made available to the county and, once designated, may not be used for another purpose.

Although DMH may require itemized budget and expenditure detail within specific components in county plans and on required fiscal reports, for purposes of this policy, "authorized purpose" will only be defined consistent with the level of detail contained in the MHSA Agreement.

For example assume a county receives a total distribution of $1 million in FY 05/06 funds under the CSS component. Assume further this $1 million distribution is comprised of $150,000 in the Extension of Planning category and $850,000 in the CSS Services category. Finally assume that the county's total expenditures for the period FY 05/06 through FY 07/08 (three years) in the CSS component are $100,000 in Extension of Planning category and $5 million in the CSS Services category. In this example, reversion would not apply to the unexpended $50,000 distributed from FY 05/06 funds in the Extension of Planning category because total expenditures for the overall CSS component (Services plus Extension of Planning) exceeded the initial $1 million distribution.

Local Prudent Reserve

Funds dedicated to the local prudent reserve are not subject to reversion in accordance with WIC Code Section 5892(h). DMH requires at most 30 calendar days to process a request to dedicate funding to the prudent reserve. A county requesting to dedicate FY 05/06 CSS funding to the local prudent reserve should submit requests to DMH no later than May 31, 2008 in order to ensure the request is processed and approved by June 30, 2008, the end of the 3 year reversion period for FY 05/06 funds.

If you have any questions, please contact your County Liaison identified from the link on the following internet site: http://www.dmh.ca.gov/Provider_Info/default.asp.

Sincerely,

Original signed by

STEPHEN W. MAYBERG, Ph.D.
Director