

# COUNTY OF LOS ANGELES

MARVIN J. SOUTHARD, D.S.W.  
*Director*

DAVID MEYER  
*Chief Deputy Director*

RODERICK SHANER, M.D.  
*Medical Director*



BOARD OF SUPERVISORS  
GLORIA MOLINA  
YVONNE BRATHWAITE BURKE  
ZEV YAROSLAVSKY  
DON KNABE  
MICHAEL D. ANTONOVICH

## DEPARTMENT OF MENTAL HEALTH

<http://dmh.co.la.ca.us>

550 SOUTH VERMONT AVENUE, LOS ANGELES, CALIFORNIA 90020

Reply To: (213) 738-4601  
Fax: (213) 386-1297

September 19, 2002

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, California 90012

Dear Supervisors:

**APPROVAL OF REQUEST TO SUPERSEDE ONE HUNDRED TWENTY-THREE  
CURRENT MENTAL HEALTH SERVICES AGREEMENTS WITH PROVIDERS FOR  
FISCAL YEARS 2002-2003, 2003-2004 AND 2004-2005**

**AND**

**APPROVAL OF THE REVISED LEGAL ENTITY AGREEMENT AND REVENUE  
INTEGRATED SERVICE AGENCY (ISA) AGREEMENT FORMATS**

**AND**

**APPROVAL OF REQUEST FOR APPROPRIATION ADJUSTMENT FOR  
FISCAL YEAR 2002-2003**

**(ALL SUPERVISORIAL DISTRICTS)  
(4 VOTES)**

**IT IS RECOMMENDED THAT YOUR BOARD:**

1. In order to implement a policy to have all DMH Legal Entity Agreements uniform in their terms and conditions, approve the supersession of all DMH Agreements with 123 Legal Entity providers, effective upon Board approval, including The Regents of the University of California (Ties for Adoption Program), as listed in Attachment I for Fiscal Years (FY) 2002-2003, 2003-2004 and 2004-2005. The total Maximum Contract Amount (MCA) for each FY reflects \$463,559,479, \$252,881,139 and \$76,914,488 respectively. The MCA for FYs 2003-2004 and 2004-2005 will change because of anticipated contract renewals and are dependent on other funding that is given to the County by the State and/or Federal government on an annual basis.
2. Approve the revised Legal Entity Agreement (Attachment II), the Revenue Integrated Services Agency (ISA) Agreement (Attachment III) formats and make a

corresponding amendment to The Regents of the University of California (Ties For Adoption Program) agreement.

3. Approve the attached Request for Appropriation Adjustment (Attachment IV) in the amount of \$105,076,000 for FY 2002-2003. The increase in appropriation will permit the Department of Mental Health (DMH) to fund Legal Entity providers for mental health services.
4. Effective upon Board approval, delegate authority to the Director of Mental Health to prepare, sign and execute these legal entity agreements (substantially similar to Attachment II) between the County and these contractors after DMH has prepared these agreements in accordance with Attachments I and III and has obtained contractor signatures for each agreement.
5. Delegate authority to the Director of Mental Health to prepare, sign and execute future amendments to these DMH Legal Entity Agreements and to the Affiliation Agreement with The Regents of the University of California (Ties for Adoption Program), provided that: 1) the County's total payments to contractor under each Agreement for each fiscal year shall not exceed a change of twenty percent from the applicable revised Maximum Contract Amount; 2) any such increase shall be used to provide additional services or to reflect program and/or policy changes; 3) the Board of Supervisors has appropriated sufficient funds for all changes; 4) approval of County Counsel and the Chief Administrative Officer or his designee is obtained prior to any such Amendment; and 5) the Director of Mental Health shall notify the Board of Supervisors of Agreement changes in writing within 30 days after execution of each Amendment.

**PURPOSE OF RECOMMENDED ACTION:**

There has been an ongoing review of all DMH agreements with Legal Entity providers, and the Chief Administrative Office (CAO) and Auditor-Controller (AC) have recommended that there be uniformity of terms and conditions. DMH and County Counsel concur with this recommendation that the supersession bring in line all existing DMH agreements. In addition, the Maximum Contract Amounts (MCA) will reflect the full year's appropriation with no retroactive issuances of monthly contract advances prior to Board adoption.

**Implementation of Strategic Plan Goals:**

The recommended Board actions are consistent with the County's Goal 3, Organizational Effectiveness, Strategies 1 and 3, and Goal 4, Fiscal Responsibility, Strategies 1 and 3, within the County Strategic Plan. Approved services are provided through the collaborative efforts of government agencies and community-based organizations.

**JUSTIFICATION:**

DMH is implementing a strong recommendation by the Chief Administrative Office and Auditor-Controller to make DMH Legal Entity Agreements uniform. Approval of the supersession of the agreements with Legal Entity providers will insure uniformity of terms and conditions. This action will eliminate confusion in regards to the revised Cash Flow Advance language and, in addition, will insure that agreements are in compliance with the Board's mandated clauses. At present there are several forms of the Legal Entity Agreement in effect, especially regarding Cash Flow Loans.

**FISCAL IMPACT:**

There is no net county cost. The appropriation is entirely for costs of the Federal and State reimbursed Medi-Cal (Medicaid) program services delivered by County contract service providers. The funding will be Federal Financial Participation Funds (FFP), State General Funds (SGF-EPSDT), and Sales Tax Realignment funds.

The Maximum Contract Amounts (MCA) will total \$463,559,479 for FY 2002-2003, \$252,881,139 for FY 2003-2004 and \$76,914,488 for FY 2004-2005. The MCA total for FYs 2003-2004 and 2004-2005 will change because of anticipated contract renewals and are dependent on other funding that is given to the County by the State and/or Federal government on an annual basis.

**FINANCING:**

The recommended action will increase the MCA by \$105.1 million consisting of \$61.0 million in FFP, \$42.2 million in EPSDT-SGF, and \$1.9 million in Sales Tax Realignment funds. The \$105.1 million represents disbursement that will be federally required to be disbursed to the various contracted service providers rendering Medi-Cal eligible services to Medi-Cal beneficiaries.

The County, in complying with various Federal and State statutes, must either disburse the Federal and State funds to the contract service providers or return the funds to the State. The County cannot legally use the funds for any purpose other than reimbursing the rendering Medi-Cal service providers.

The \$105.1 million appropriation is for contractors and will be paid only to the extent that contract services are provided. This amount consists of:

- \$16.8 million in FFP for FY 2002-2003 growth in Medi-Cal program services to non-EPSDT Medi-Cal beneficiaries.
- \$25.3 million (\$13.7 million FFP and \$11.6 million EPSDT-SGF) necessary to increase the MCAs up to the FY 2001-2002 actual service delivery level. This amount had not been included in the Department's FY 2002-2003 proposed budget because of various unresolved issues among the Auditor-Controller, Chief Administrative Office and the Department.
- \$23.9 million (\$12.0 million FFP and \$11.9 million EPSDT-SGF) in estimated services to Medi-Cal beneficiaries with EPSDT status that were associated with FY 2001-2002 mid-year program expansion that the State maybe recognizing in their methodology for establishing their FY 2001-2002 baseline for EPSDT growth in FY 2002-2003.
- \$39.1 million, comprised of \$18.5 million in FFP, \$18.7 million in EPSDT-SGF, and \$1.9 million Sales Tax Realignment funds, is estimated growth in excess of the anticipated State designated FY 2002-2003 baseline for EPSDT growth (EPSDT Growth is defined as the amount of EPSDT services rendered above the newly established EPSDT Growth Baseline. This is currently defined as four times the total EPSDT rendered in the 4<sup>th</sup> Quarter of FY 2001/2002, or \$280.3 million. This definition is subject to change. An increase in the Growth Baseline would decrease the cost to the County, and a decrease to the Baseline would result in a higher County cost.). FY 2002-2003 State Budget implementation action taken by the Governor specifies that the local county must contribute 10% of the non-Federal EPSDT costs in excess of a FY 2002-2003 EPSDT Growth Baseline. This would require \$1.9 million local match participation to be funded with the Sales Tax Realignment funds. As noted above, changes to the State's EPSDT Growth Baseline calculation methodology will increase or decrease the \$1.9 million.

The State's disbursement of the FFP funds does not present any financing issue for the County beyond the Auditor-Controller's twelve (12) month revenue recognition period. However, the State's current disbursement procedures for EPSDT-SGF funds does present a potential financing need for the County. While the Department has made progress with the State in improving the State's EPSDT-SGF cash flow, there does remain some uncertainty in the timing of State's disbursements.

The Department appreciates that since this Letter requests that your Board approve an appropriation adjustment for \$42.2 million in EPSDT-SGF, an analysis and disclosure of the potential impact to the County is appropriate. Attachment V summarizes this information. There are three different fiscal years for which the State's payment process for EPSDT-SGF represents a potential cost to the County.

- FY 2000-2001. The State owes the County \$43.5 million for EPSDT services delivered in FY 2000-2001. Of this, \$28.1 million was accrued for collection in FY 2002-2003. This amount, as well as the balance of \$15.4 million (\$43.5 million minus \$28.1 million) would be paid on or about April 2003 and would result in an over realization of revenue. The over realized \$15.4 million would then be used to finance part of the FY 2002-2003 State deferred EPSDT-SGF revenues.

Worst Case Scenario: If the State fails to pay, the County would need to finance the \$28.1 million.

- FY 2001-2002. The State owes the County \$54.4 million for EPSDT services delivered in FY 2001-2002. This amount was not recognized as revenue during 2001-2002 because the timeliness of collection was uncertain. The Department now believes that the State will pay \$28.8 million. The State has notified the Department that it is processing a payment in October 2002 for \$21.8 million of the \$28.8 million. DMH plans to use these funds to finance \$17.4 million of the FY 2002-2003 State deferred EPSDT-SGF revenues. This amount, plus the \$15.4 expected to be over realized from FY 2000-2001 will fully finance the projected \$32.8 million of FY 2002-2003 State deferred EPSDT-SGF revenues.

Worst Case Scenario: If the State fails to pay, the Department would be unable to use these funds to finance the FY 2002-2003 State deferred EPSDT-SGF revenues, and the County would need to finance \$28.8 million.

- FY 2002-2003. The Department estimates it will deliver \$139.1 million in EPSDT-SGF funded services in FY 2002-2003. Of this, the Department anticipates receiving 75%, or \$104.4 million as FY 2002-2003 State advances. The balance of \$32.8 million (this is net of the \$1.9 projected cost of the State's new 10% share of cost for EPSDT growth) will be deferred. This amount would be financed in FY 2002-2003 by the \$15.4 million and \$17.4 million identified in the prior years' analysis, resulting in no net County cost for FY 2002-2003 for the EPSDT program.

Worst Case Scenario: If the State fails to pay any or all of the \$104.4 million, the Department would not be able to finance the shortfall. To the extent that the \$104.4 million is not received, the County would need to finance the unpaid portion of the \$104.4 million.

Accordingly, for County financing purposes of recognizing revenue within the Auditor-Controller's twelve (12) month revenue recognition period, the Department is planning on receiving 75% or \$104.4 million from the State of the \$139.1 million local government EPSDT share of the estimated \$319.5 million in FY 2002-2003 Medi-Cal services to Medi-Cal beneficiaries with designated EPSDT status. This may leave \$32.8 million in deferred revenues that will not be received until approximately twenty-two (22) months after the close of the fiscal year.

The Department is continuing to work with the State to increase the advance percentage and/or use the current State methodology for paying FFP for EPSDT-SGF payment. The State is seriously considering using the FFP payment methodology for EPSDT-SGF disbursements, which would dramatically improve EPSDT-SGF cash flow.

This may leave a temporary financing need. Should the Department fail to obtain an increased level of State advances or a change in the State payment methodology for FY 2002-2003 EPSDT Medi-Cal services by fiscal year end, your Board's participation by funding the State advance deficiency, if any, will be requested.

A Governor's State Executive Order requires a 10% County match for the federally mandated local match portion of services to Medi-Cal beneficiaries with EPSDT status. Ten (10%) percent of the growth amount of the projected \$39.1 million in EPSDT services in excess of the anticipated State baseline of FY 2001-2002 4<sup>th</sup> quarter EPSDT approvals multiplied by four (4) is \$3.9 million. The local match portion is 49.65% or \$1.9 million. The Department will fund \$1.9 million with available unexpended Sales Tax Realignment funds presently in the County's Sales Tax Realignment Trust.

Following is the methodology for determination of FY 2002-2003 contractor MCA increase. The FFP and EPSDT amounts were determined by:

1. The higher of May 2002 State Medi-Cal approvals multiplied by 12, or May 2002 year-to-date (YTD) State Medi-Cal amounts plus May 2002 State Medi-Cal amounts divided by 97% (.97); unless the contractor requested the existing contract amount, or the lower of the May 2002 multiplied by 12 or May 2002 YTD plus May 2002.

2. There are fourteen (14) exceptions, which are identified by an asterisk (\*) shown in the first column "note". The MCA for these Contractors was based on the net projected program budget amount.
3. The Regents of the University of California item #114 in Attachment I is a unique Affiliation Agreement, which has a mental health services component (Ties for Adoption Program). Our DMH Finance Specialist has approved \$1,191,266 FFP and \$1,135,014 EPSDT-SGF that will be added to that component (Ties for Adoption Program) through an amendment which adds the revised Cash Flow Advance language and amount.

#### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS:**

The MCAs identified in Attachment I reflect your Board's June 26, 2002 adoption of the DMH's FY 2002-2003 Budget, with the exception of the Regents of University of California and nine other providers whose financial exhibits and MCA have been adjusted pursuant to an agreement between DMH and providers. In addition, the MCA reflects three (3) months allocation of Children's System of Care (CSOC) funds, one time only rollover Substance Abuse and Mental Health Services Administration (SAMHSA) funds, CALWORKS funds augmentation (approved by your Board on August 20, 2002) and the proposed increase of additional FFP and EPSDT-SGF.

The Auditor-Controller and DMH's Fiscal and Program staff have reviewed the proposed actions. All of the Agreements have been approved as to form by County Counsel.

- Attachment I (Mental Health Services Agreements – Legal Entity) specifies the Contractors, Legal Entity number, Supervisorial District, reimbursement methodology, services provided, Agreement terms and Maximum Contract Amounts per year for each Agreement.
- Attachment II is the DMH Legal Entity Agreement format.
- Attachment III is the Revenue Integrated Services Agency (ISA) Agreement format.
- Attachment IV is the Request for Appropriation Adjustment.
- Attachment V is the Analysis of Funding For Supersession Board Letter.

#### **CONTRACTING PROCESS:**

All of the Agreements identified in Attachment I have existing contracts with the County, which expire on June 30, 2003, June 30, 2004 or June 30, 2005. Approval of this Board Letter will make all DMH Legal Entity Agreements uniform and will add Board mandated language. As mandated by your Board, the performances of all the contracting agencies are evaluated by DMH on an annual basis to ensure the Contractor's compliance with all contract terms and conditions.

**IMPACT ON CURRENT SERVICES:**

Current services are not affected; this action simply makes all legal entity agreements uniform.

**CONCLUSION:**

The Department of Mental Health will need one (1) copy of the adopted Board action. It is requested that the Executive Officer, Board of Supervisors, notify the Department of Mental Health's Contracts Development and Administration Division at (213) 738-4684, when these documents are available.

Respectfully submitted,

MARVIN J. SOUTHARD, D.S.W.  
Director of Mental Health

MJS:RK:BMcT

Attachments (5)



The Honorable Board of Supervisors  
September 19, 2002  
Page 9

c: Chief Administrative Officer  
County Counsel  
Executive Office, Board of Supervisors  
Auditor-Controller  
Chairperson, Mental Health Commission