

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
September 14, 2006

To: Board of Supervisors

From Department of Health and Human Services

Subject: Report Back On Treatment Of All Community Based Organizations (CBO) Regarding Cost Of Living Adjustments (COLA) And Cost Of Doing Business Increases Related To Requests From Mental Health Providers

Contact: Lynn Frank, Director (875-2002)

On September 6, 2006 the Board requested information on the treatment of all CBO's regarding COLAs and cost of doing business increases related to requests from Mental Health Providers.

BACKGROUND

The Mental Health Division contracts for most of its services via a network of private providers. These providers have not received any stated funding increases to cover inflation since Fiscal Year 2000-01, although there has been some funding increases for caseload growth for several of the provider agencies. In addition, some providers had the ability to increase their contract reimbursement amount as a result of the cost settlement process described below.

Contracted service providers are reimbursed based on actual annual costs of provided services. This process is called the cost settlement process. However, County disbursements to providers are capped by 1) the 'maximum total payment' amount as stated within our service agreements and/or 2) Schedule of Maximum Allowance (SMA) as established by the California Department of Mental Health. The current contract amount for a provider is based on the prior year actual cost of service. When the actual cost of service is determined through the cost settlement process the service provider is paid the difference between the actual cost and the contract amount subject to the maximum total payment amount and the SMA limitations. The portion of the actual costs that are attributed to Medi-Cal Services Units are federally reimbursed at 50% of the service cost up to the SMA rates, with a county match of 50% for adult patients and a 45% state and 5% County match for children. Realignment is used to meet the County match requirement.

If a contract provider's total billings for the contract period do not exceed the maximum total payment amount AND rates for service units are below SMA, the contractor has financial flexibility to provide salary increases and other operating expense increases. During FY 2004/05, approximately 50% of the Mental Health contract providers met both conditions.

For those providers that have costs above the SMA, any cost of living increases would have to be funded entirely from Mental Health Realignment Revenues or County General Funds.

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The requested 3.1% COLA increase is based on the entire contract amount including salaries, benefits and operating expenses. The requested increase for Children's Providers is \$2,351,640 and Adult Providers is \$1,169,341.

The projected revenue for the 3.1% COLA is based on current eligibility and contract rates. For Fiscal Year 2006-07 approximately 91% of the Children's providers cost is Medi-Cal reimbursable and approximately 40% of the Adult providers costs are reimbursable from a combination of MediCal and SAMHSA block grant funding, resulting in a local share of \$888,092.

DISCUSSION

The Department supports the Service Providers COLA request. However, in order to fund the local share the Department would require additional County General Funds. The Fiscal Year Mental Health Realignment Funds have been fully utilized in the FY 2006-07 Budget. There is no Mental Health Realignment funding available to fund the county share of this request as the entire current year Mental Health Realignment revenue has been budgeted and your Board approved a plan to obligate the Mental Health Trust Account by expanding the RST Mental Health Providers contracts in Fiscal Year 2005-06 through Fiscal Year 2010-2011.

FINANCIAL ANALYSIS

Total cost for the 3.1% COLA increase for Adult Providers is \$1,169,341. Medi-Cal Federal Revenues are projected at \$446,447 and \$26,151 from the SAMHSA block grant, leaving a net County cost of \$696,743. Total cost for the 3.1% COLA increase for Children's Providers is \$2,351,640. Revenues are projected at \$2,160,291 from Medi-Cal, for a Net County cost of \$191,349. The total amount requested for the COLA increase is \$3,520,981 offset by estimated revenue of \$2,632,889 for a net county cost of \$888,092.

Respectfully submitted,

LYNN FRANK, Director
Department of Health and Human Service

APPROVED:
TERRY SCHUTTEN
County Executive

By: _____
PENELOPE CLARKE, Administrator
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