

***El Dorado County
Chief Administrative Office
Interoffice Memorandum***

June 8, 2009

TO: Board of Supervisors

FROM: Gayle Erbe-Hamlin, Chief Administrative Officer

SUBJECT: Agenda Item #28, June 9, 2009 (Legistar File 09-0728)
Mental Health Division FY 2008-09 Budget Adjustment

Gayle Erbe-Hamlin

The Health Services Department is projecting a FY 2008-09 operating loss of approximately \$2M and a resulting fiscal year end fund balance of negative \$3.4M for the Mental Health Division's traditional Mental Health program budget (Fund 11-110-001).

If no action is taken to adjust the Mental Health Division budget at this time:

- Mental Health will have insufficient appropriations to make payroll and pay bills for FY 2008-09
- Mental Health will end the year with an operating loss of approximately \$2M
- Mental Health will end the year with a negative fund balance of approximately \$3.4 million (beginning negative fund balance of \$1.4M plus \$2M current year operating loss)

The Chief Administrative Office has evaluated the Health Services Department's requested action relative to this matter and has identified additional budgetary options for the Board's consideration based on concerns and issues identified in previous discussions of the Mental Health Division budget. The budget adjustment as requested by the Department (Option 1 below) was structured to address the current year budget shortfall projected for Mental Health (operating losses of approximately \$2M resulting in a year end negative fund balance of approximately \$3.4M) and defers addressing the Division's ongoing cash flow requirements. At the time the requested budget adjustment was submitted, a detailed discussion of the ongoing cash requirements for Mental Health was anticipated to be included in the countywide cash flow analysis currently in process.

We are providing two alternative options that would allow the Board to address the current year budget shortfall as well as begin to address the anticipated cash flow requirements for the Mental Health Division and preserve the prior year \$3.3M cash advance to Mental Health as a "loan" on the books. To accomplish this, an additional General Fund contribution would be required (see Options 2 and 3 below).

We want to acknowledge that this budget decision comes to the Board at a time during the fiscal year when no further expenditure reductions can be made to the Department's budget; however this is no reflection on the Department's efforts to clearly communicate and address the projected budget shortfall in their December 2008 and February 2009 budget updates to the Board and in the significant budget reduction measures previously taken.

Staff will prepare the appropriate budget transfer for processing depending on the outcome of the discussion of this item on June 9, 2009.

Option 1:

Transfer 10 % of FY 2008-09 Public Health realignment revenues	\$328,787
"Forgive" FY 2007-08 loan to Mental Health	<u>\$3,319,000</u>
	\$3,647,787

Steps:

- A. Transfer Public Health Realignment funds to Mental Health
- B. Transfer \$3,319,000 from General Fund as a "contribution" to Mental Health in FY 2008-09
- C. Retain any unused fund balance within Mental Health and address this amount in the FY 2009-10 budget addenda

Impact:

- *Restores Mental Health fund balance to \$0 at fiscal year end*
- *No additional impact to General Fund fund balance*
- *No net change to cash position of Mental Health or General Fund*
- *Removes the FY 2007-08 "loan" from the books and replaces it in FY 2008-09 as a contribution*
- *No change to FY 2009-10 Proposed Budget appropriations for Mental Health or General Fund*
- *Does not address ongoing Mental Health cash requirements – additional cash "float" will be needed*

Option 2:

Transfer 10 % of FY 2008-09 Public Health realignment revenues	\$328,787
Retain prior year advance as a “loan” on the books	\$3,319,000
Transfer from General Fund Designations for Capital Projects	<u>\$3,060,643</u>
	\$6,708,430

Steps:

- A. Transfer Public Health Realignment funds to Mental Health
- B. Reduce General Fund Designations for Capital projects (amount currently designated is \$3,416,150)
- C. Transfer \$3,060,643 from General Fund as a “contribution” to Mental Health

Impact:

- *Restores Mental Health fund balance to \$0 at fiscal year end*
- *Reduces General Fund fund balance designated for Capital Projects from \$3,416,150 to \$355,507*
- *Transfers an additional \$3,060,643 cash from the General Fund to Mental Health*
- *Creates a positive cash balance in Mental Health sub fund 001 and begins to address ongoing cash requirements*
- *Retains the FY 2007-08 “loan” of \$3,319,000 on the books*
- *No change to FY 2009-10 Proposed Budget appropriations for Mental Health or General Fund but does reduce funds held as “designations” thereby reducing the County’s “rainy day” funds**

** Designations are identified in the FY 2009-10 Proposed Budget Book, Summary Budget Schedule page S3, and Department 15 page 129.*

Option 3:

Transfer 10 % of FY 2008-09 Public Health realignment revenues	\$328,787
Retain prior year advance as a “loan” on the books	\$3,319,000
Transfer from General Fund Contingency	<u>\$3,060,643</u>
	\$6,708,430

Steps:

- A. Transfer Public Health Realignment funds to Mental Health
- B. Reduce General Fund Contingency (amount currently appropriated for Contingency is \$5,458,878)
- C. Transfer \$3,060,643 from General Fund as a “contribution” to Mental Health

Impact:

- *Restores Mental Health fund balance to \$0 at fiscal year end*
- *Reduces FY 2008-09 General Fund from \$5,458,878 to \$2,398,235*
- *Transfers an additional \$3,060,643 cash from the General Fund to Mental Health*
- *Creates a positive cash balance in Mental Health sub fund 001 and begins to address ongoing cash requirements*
- *Retains the FY 2007-08 “loan” of \$3,319,000 on the books*
- *Reduces FY 2008-09 carry over fund balance for FY 2009-10 Proposed Budget by \$3,060,643 and requires a corresponding reduction to FY 2009-10 appropriations*

Cc: Neda West, Director of Health Services
Joe Harn, Auditor-Controller
C.L. Raffety, Treasurer/Tax Collection