

**PRUDENT RESERVE POLICY UPDATE  
DRAFT FOR DISCUSSION BY  
MHSOAC Funding and Policy Committee  
5/17/11**

**Summary**

- Mental Health Services Act (MHSA) provided for a local Prudent Reserve for the purpose of continuing services when revenues fall beneath recent averages.
- The Department of Mental Health (DMH) issued Information Notices requiring counties to establish a Prudent Reserve of 50% of CSS and 50% of PEI. .
- AB 100 set out a change in roles and responsibilities, with the clear intent of providing more flexibility for counties. Because of this change in roles DMH has rescinded the Prudent Reserve requirement of 50% allowing counties to fund the required Prudent Reserve to a level the county determines is appropriate, even if this amount exceeds or is less than the previously required 50 percent level. This policy change was facilitated through DMH Information Notice NO.:11-05 and is effective April 8<sup>th</sup>, 2011.
- This memo addresses:
  - Background regarding Prudent Reserve policy
  - Current status of Prudent Reserve funds

**Background**

Welfare & Institutions Code (WIC) Section 5847(b)(7) requires each county to establish and maintain a prudent reserve to ensure that in years in which revenues for the MHS Fund are below recent averages the county will be able to continue to serve children, adults and seniors that it had been serving through Community Services and Supports (CSS) (Systems of Care) and Prevention and Early Intervention (PEI).

DMH, in consultation with the MHSOAC and California Mental Health Directors Association, adopted the following Prudent Reserve policies which were in effect prior to FY 10/11:

- 50 percent of the most recent annual approved CSS and PEI (excluding statewide PEI) funding level should be set aside as the required Prudent Reserve amount.
- Each county should maintain the 50 percent Prudent Reserve at the local level and fully fund the prudent reserve by June 30, 2011, unless the county

would have to reduce CSS (System of Care) or PEI below those funded in FY 2007-08 in order to reach the 50 percent Prudent Reserve level.

- MHSA funds dedicated to a local Prudent Reserve can only be accessed in accordance with WIC Sections 5847(b)(7) and 5847(f). A county will be able to access these funds only with DMH/MHSOAC plan approval. For audit purposes, each county should be able to clearly identify funds in their local MHS fund dedicated to the local Prudent Reserve. Interest earned on funds dedicated to the local Prudent Reserve is to be used for services consistent with a county's approved Plan and/or the Prudent Reserve.

In DMH Information Notice 10-01 dated January 19, 2010 the requirement to fund the Prudent Reserve at the 50% level was suspended due to economic circumstances and counties were allowed to access their Prudent Reserve to support any services allowable under the CSS and PEI components (excluding statewide PEI projects).

In addition to the Prudent Reserve, counties have other MHSA funds available to maintain CSS and PEI services when there are reductions in MHSA revenues. These funds include unapproved funds, unspent funds and interest.

### **Most Recent Revised Prudent Reserve Policy Highlights**

AB 100 set out a change in roles and responsibilities, with the clear intent of providing more flexibility for counties. Because of this change in roles, DMH eliminated the limitations on the funding level of for Prudent Reserves. On April 8, 2011 DMH Issued DMH Information Notice No.:11-05 implementing this policy. Highlights follow:

- The 50 percent Local Prudent Reserve requirement/limitation has been rescinded. Please note that, other than this change in fiscal policy, all other policy and guidance on the Local Prudent Reserve remains in effect. With the rescission of this policy, Counties may fund the local Prudent Reserve to a level the County determines is appropriate consistent with WIC Section 5892(b).
- WIC Section 5892(b) permits a County to use up to 20 percent of the average amount of CSS funds allocated to that county for the previous five years to fund for technological needs and capital facilities, human resource needs, and a Prudent Reserve. This change in policy permits a County to use any portion of this amount to fund its local Prudent Reserve needs, if it elects to do so, even if this amount exceeds or is less than the previously required 50 percent level.