March 15, 2019

Honorable Toni G. Atkins
President pro Tempore

Honorable Shannon Grove
Senate Republican Leader

Honorable Holly Mitchell, Chair
Senate Budget and Fiscal Review Committee

Honorable Anthony Portantino, Chair
Senate Appropriations Committee

Honorable Betty T. Yee
State Controller

Honorable Anthony Rendon
Speaker of the Assembly

Honorable Marie Waldron
Assembly Republican Leader

Honorable Phil Ting, Chair
Assembly Budget Committee

Honorable Lorena Gonzales, Chair
Assembly Appropriations Committee

TRANSFER TO MENTAL HEALTH SERVICES FUND

In November 2004, the voters passed Proposition 63, the Mental Health Services Act, which imposed a 1-percent surcharge, effective January 1, 2005, on taxpayers’ taxable income above $1 million to fund mental health service programs.

Section 19602.5 (c) of the Revenue and Taxation Code requires that no later than March 1 of each year, the Department of Finance, in consultation with the Franchise Tax Board (FTB), is to determine the annual adjustment amount for the Mental Health Services Fund (MHS Fund) for the following fiscal year. Section 19602.5 (d) requires Finance to notify the Legislature and the State Controller of the annual adjustment amount no later than 10 business days after the determination is final.

The annual adjustment amount for fiscal year 2017-18, based on the 2017 tax year liability after October final returns are keyed into FTB’s database, has been determined by Finance in consultation with the FTB to be $443,616,906.34. This amount is $29,629,180.94 higher than the $413,987,725.40 that was estimated in the Governor’s Budget based on estimates of 2017 liability made without final return data.

Statutory Requirements

Section 19602.5 (b) requires the Controller to deposit on a monthly basis a specified percentage of net personal income tax receipts (i.e., gross receipts less refunds) in the MHS Fund. The specified percentage for each month beginning with fiscal year 2006-07 is 1.76 percent.
There are two calculations in determining the annual adjustment amount:

1. The first calculation is the "revenue adjustment amount," which compares the monthly deposits made by the Controller to the MHS Fund and the "estimated revenue from the additional tax" for the applicable fiscal year, pursuant to section 19602.5 (c) (3) (A) and (B).

2. The second calculation is the "tax liability adjustment amount," which compares the amount of the actual tax liability increase from the 1-percent surcharge and the "estimated tax liability increase from the additional tax," pursuant to section 19602.5 (c) (2) (A) and (B).

The net of these two calculations yields the annual adjustment amount for the following fiscal year.

Pursuant to subdivisions (e) and (f), if the annual adjustment amount as determined on March 1 is a positive number, the Controller is required to transfer that amount from the General Fund to the MHS Fund on July 1 of the following fiscal year. If the annual adjustment amount is a negative number, the Controller is required to suspend monthly transfers to the MHS Fund for that fiscal year until the total amount of suspended deposits equals the amount of the negative annual adjustment amount.

The attachment provides a detailed description of the calculation of the annual adjustment amount.

**Annual adjustment amount for 2017-18 to be transferred in 2019-20:**

The annual adjustment amount for 2017-18, as determined by Finance in consultation with the FTB is $443,616,906.34. Pursuant to section 19602.5 (e), since the March 1, 2019 determination of the annual adjustment amount as required under subdivision (c) is positive, the Controller is required to transfer $443,616,906.34 from the General Fund to the MHS Fund on July 1, 2019.

Sincerely,

VIVEK VISWANATHAN
Chief Deputy Director

Attachment

cc: On following page
cc: Honorable Jim Nielsen, Vice Chair, Senate Budget and Fiscal Review Committee
    Honorable Jay Obernolte, Vice Chair, Assembly Budget Committee
    Mr. Gabriel Petek, Legislative Analyst (3)
    Mr. Joe Stephenshaw, Staff Director, Senate Budget and Fiscal Review Committee
    Mr. Mark McKenzie, Staff Director, Senate Appropriations Committee
    Mr. Kirk Feely, Budget Fiscal Director, Senate Republican Fiscal Office
    Mr. Christopher Woods, Senate President pro Tempore's Office (2)
    Mr. Christian Griffith, Chief Consultant, Assembly Budget Committee
    Mr. Jay Dickenson, Chief Consultant, Assembly Appropriations Committee
    Ms. Cyndi Hillery, Staff Director, Assembly Republican Fiscal Committee
    Ms. Jayme Chick, Deputy Chief of Staff, Policy, Assembly Republican Leader's Office
    Mr. Joe Shinston, Policy and Fiscal Director, Assembly Republican Leader's Office
    Mr. Jason Sisney, Assembly Speaker's Office (2)
    Ms. Casandra Moore-Hudnall, Division Chief, State Accounting and Reporting Division,
    State Controller's Office
    Ms. Bertha Mejía, Chief, Bureau of Accounting and Consulting, State Controller's Office
icc: ASMUNDSON, CHAMBERLAIN, WHITE, FINNESTEAD, CASTANADA, BRUSS, DOYLE, COOK, VALDIVIA, C/F, FILE

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IRENA ASMUNDSON
PROGRAM BUDGET MANAGER
DEPARTMENT OF FINANCE
915 L STREET, 8TH FLOOR
SACRAMENTO, CA 95814

Report on the Annual Adjustment for the Mental Health Services Fund

The Franchise Tax Board provides this report to the Department of Finance as required by subdivision (c) of Section 19602.5 of the Revenue and Taxation Code. The Franchise Tax Board has calculated that the annual adjustment amount for the Mental Health Services Fund for the 2019/20 Fiscal Year is $443,616,906.34.

The attached document describes the calculation of the annual adjustment amount. If you have any questions, please call Allen Prohofskey at (916) 845-7103.

Jeanne Harriman
Chief Financial Officer

Attachment
The following describes the calculation of the annual adjustment amount for the Mental Health Services Fund for the 2019/20 Fiscal Year.

As required by paragraph (1) of subdivision (c) of Section 19602.5 of the Revenue and Taxation Code:

The “annual adjustment amount” for any fiscal year shall be ... determined by subtracting the “revenue adjustment amount” for the applicable revenue adjustment fiscal year ... from the “tax liability adjustment amount” for applicable tax liability adjustment tax year.

For the 2019/20 Fiscal Year, the applicable revenue adjustment fiscal year is 2017/18 (per clause (iii) of subparagraph (B) of paragraph (3) of subdivision (c) of Section 19602.5 of the Revenue and Taxation Code), and the applicable tax liability adjustment year is 2017 (per clause (iii) of subparagraph (A) of paragraph (2) of subdivision (c) of Section 19602.5 of the Revenue and Taxation Code).

The revenue adjustment amount is “determined by subtracting the estimated revenue from the additional tax for the applicable fiscal year... from the actual amount transferred for the applicable fiscal year.” (Per subparagraph (A) of paragraph (3) of subdivision (c) of Section 19602.5 of the Revenue and Taxation Code.)

For FY 17/18, the actual amount transferred was $1,675,446,593.54
For FY 17/18, the estimated revenue from the additional tax was $1,441,921,944.89
For FY 17/18, the revenue adjustment amount is the difference or $233,524,648.65

The tax liability adjustment amount is “determined by subtracting the estimated tax liability increase ... from the amount of actual tax liability increase.” (Per clause (i) of subparagraph (A) of paragraph (2) of subdivision (c) of Section 19602.5 of the Revenue and Taxation Code.)

For 2017, the actual tax liability increase was $2,070,693,638.00
For 2017, the estimated tax liability increase was $1,393,552,083.01
For 2017, the tax liability adjustment amount is the difference or $677,141,554.99

The annual adjustment amount is calculated as:

The tax liability adjustment amount $677,141,554.99
Minus the revenue adjustment amount $233,524,648.65
The annual adjustment amount for Fiscal Year 2019/20 is $443,616,906.34