

Mental Health Services Act Fiscal Forecast

California Institute for Behavioral Health Solutions

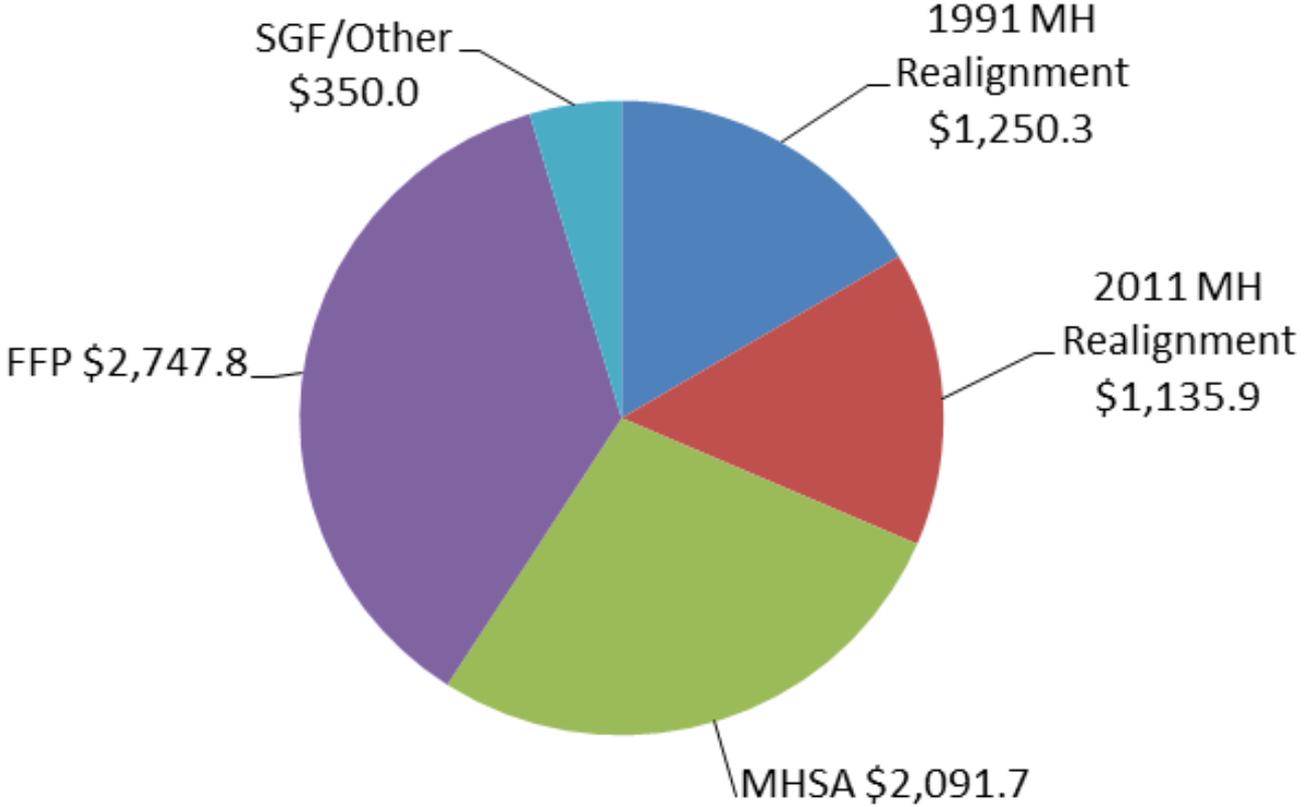
September 2, 2020

Mike Geiss



FY20/21 Estimated Community Mental Health Funding

(Dollars in Millions)

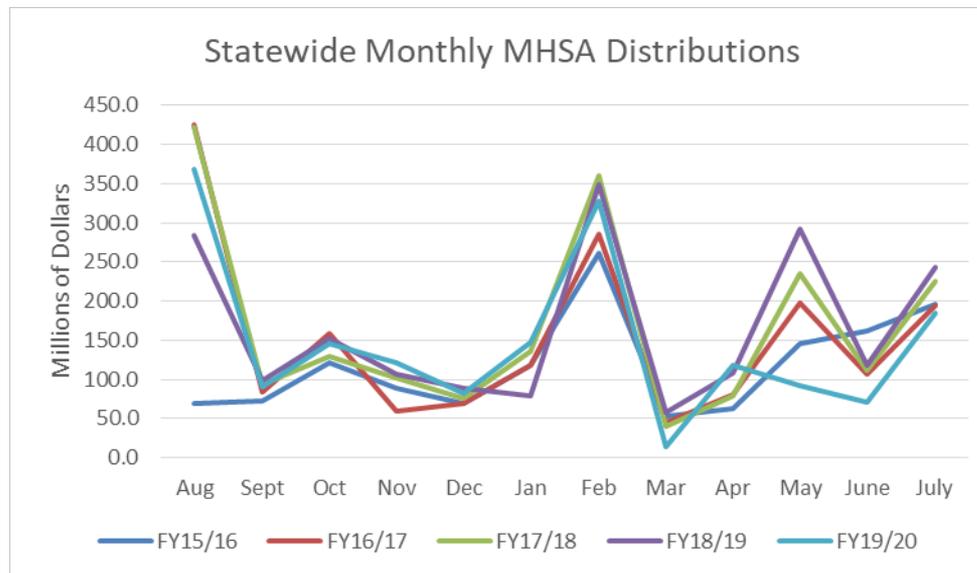


Mental Health Services Act Revenues

- The MHSA created a 1% tax on income in excess of \$1 million to expand mental health services
- Approximately 76,000 tax returns reflected taxable income in excess of \$1 million in calendar year 2017
- Two primary sources of deposits into State MHS Fund
 - 1.76% of all monthly personal income tax (PIT) payments (Cash Transfers)
 - Annual Adjustment based on actual tax returns
 - Settlement between monthly PIT payments and actual tax returns

Mental Health Services Act Revenues

- Cash Transfers include state withholding tax payments, estimated tax payments and year end tax payments
 - State withholding payments are generally more predictable and reflect economic conditions in the labor market
- Cash Transfers are largest in months following quarterly tax payments and year end tax payments



Mental Health Services Act

Revenues

- Annual Adjustments reflect the difference between the amount earned as determined through actual tax returns and the monthly cash transfers
 - Recent tax returns indicate approximately 33% of taxable income is from wages and salaries, 33% from capital gains, 20% from partnerships and S-corporations, and balance from dividends, interest, misc. other income
- Annual Adjustments are calculated based on calendar year tax returns adjusted to reflect fiscal year
 - Fiscal Year 20/21 Annual Adjustment
 - Based on Fiscal Year 18/19
 - Calculated from calendar year 2018 tax returns
 - Calendar year 2018 tax returns filed by October 15, 2019
 - FTB calculates amount earned by MHSA tax by beginning of March 2020
 - Deposited July 1, 2020

Mental Health Services Act Revenues

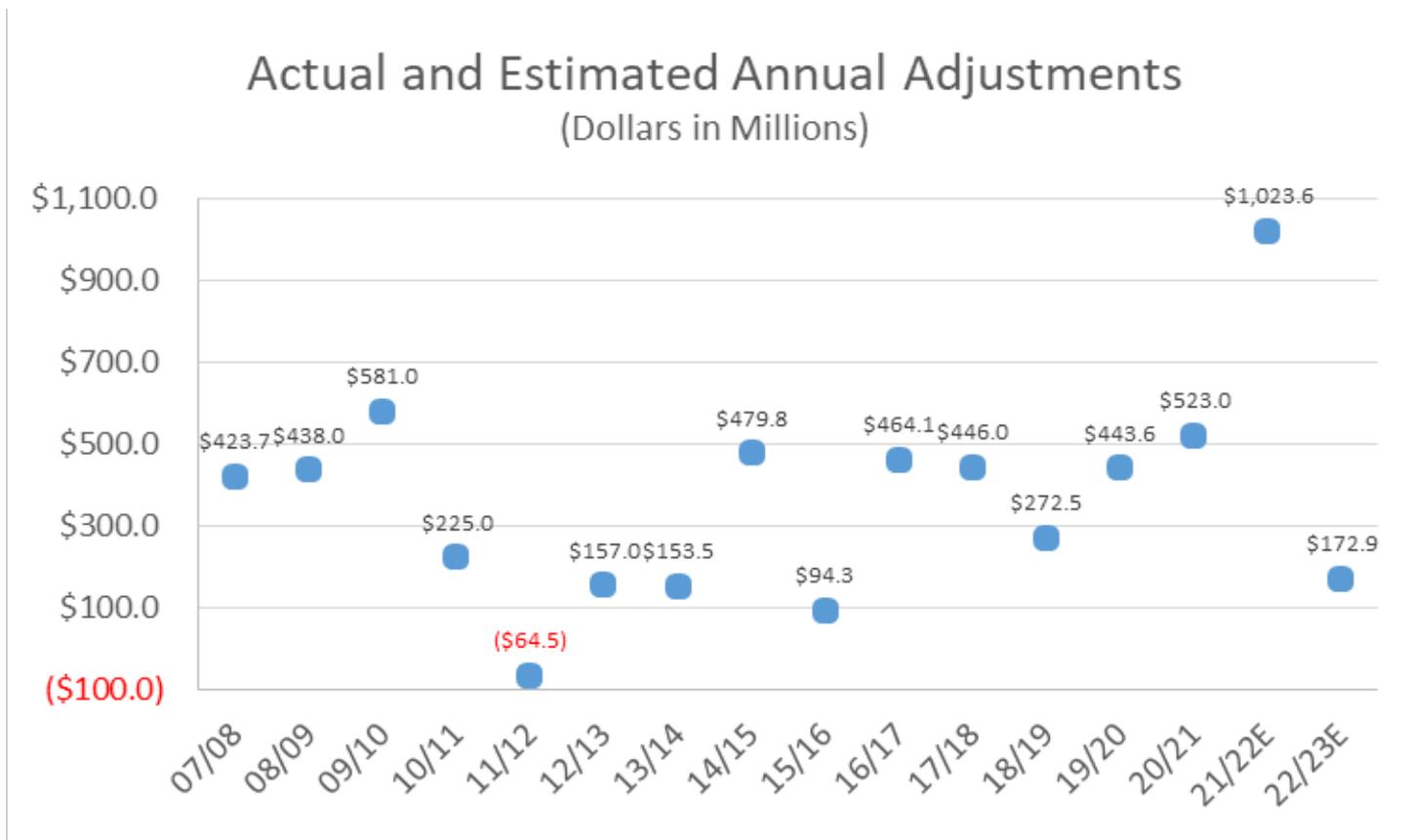
- Annual Adjustments are difficult to estimate

Estimated and Actual Annual Adjustments (Dollars in Millions)

	2016-17	2017-18	2018-19	2019-20	2020-21
Governor's January Budget	536.0	345.4	335.1	560.0	511.4
May Budget Revision	357.6	463.4	521.1	640.7	172.9
Governor's January Budget	371.0	359.2	632.0	572.8	
May Budget Revision	357.5	398.0	644.8	1,023.6	
Governor's January Budget	311.7	414.0	584.5		
Actual Adjustment	272.5	443.6	523.0		

Mental Health Services Act Revenues

- Annual Adjustments are incredibly volatile from year to year



Mental Health Services Act Revenues

- Funds distributed to counties on a monthly basis (W&I Code Section 5891(c))
 - Unexpended and unreserved funds on deposit in the State MHS Fund at the end of the month are distributed by the 15th of the next month
 - State reserves entire administrative appropriation at the beginning of the fiscal year

MHSA County Funding

- Individual county allocation percentages are based on:
 - Estimated need for services
 - Self-sufficiency and resources
 - Small county minimum allocations
 - Information Notice 20-038 describes methodology
- Counties receive one warrant (check) from the state
 - County responsible for ensuring compliance with C.C.R. Title 9, Section 3420(b)
 - 5% of total funding shall be utilized for Innovative programs
 - 19% for Prevention and Early Intervention programs
 - 76% for Community Services and Supports (System of Care)
- Each county required to have a local Mental Health Services fund in which interest earned remains in the fund

Impact of COVID-19 on MHSA Revenues

- Estimate approximately 6% decrease in FY19/20 cash transfers due to lower revenues
- Estimate additional 10% to 15% decrease in cash transfers in FY20/21 due to lower revenues
- Estimate approximately \$260 million in deferred revenue from FY19/20 to FY20/21
 - Deadline extended for 2019 tax filing and 2020 first and second quarter estimated tax payments until July 15, 2020
- Estimate significantly lower annual adjustment (\$172.9 million) in FY22/23 due to capital gains from calendar year 2020
 - State estimated \$511.4 million annual adjustment prior to COVID-19 crisis
- State is estimating the Annual Adjustment that will post in FY21/22 to be over \$1 billion
 - State estimated \$572.8 million annual adjustment prior to COVID-19 crisis
 - Almost double the largest historical Annual Adjustment

MHSA Statewide Estimated Revenues

(Cash Basis-Millions of Dollars)

	Fiscal Year				
	Estimated				
	18/19	19/20	20/21	21/22	22/23
Cash Transfers	\$1,824.0	\$1,452.1	\$1,749.70	\$1,489.7	\$1,578.9
Annual Adjustment	\$272.5	\$443.6	\$523.0	\$750.0	\$172.9
Interest	\$8.8	\$10.7	\$10.7	\$10.0	\$7.0
Total	\$2,105.3	\$1,906.4	\$2,283.4	\$2,249.7	\$1,758.8

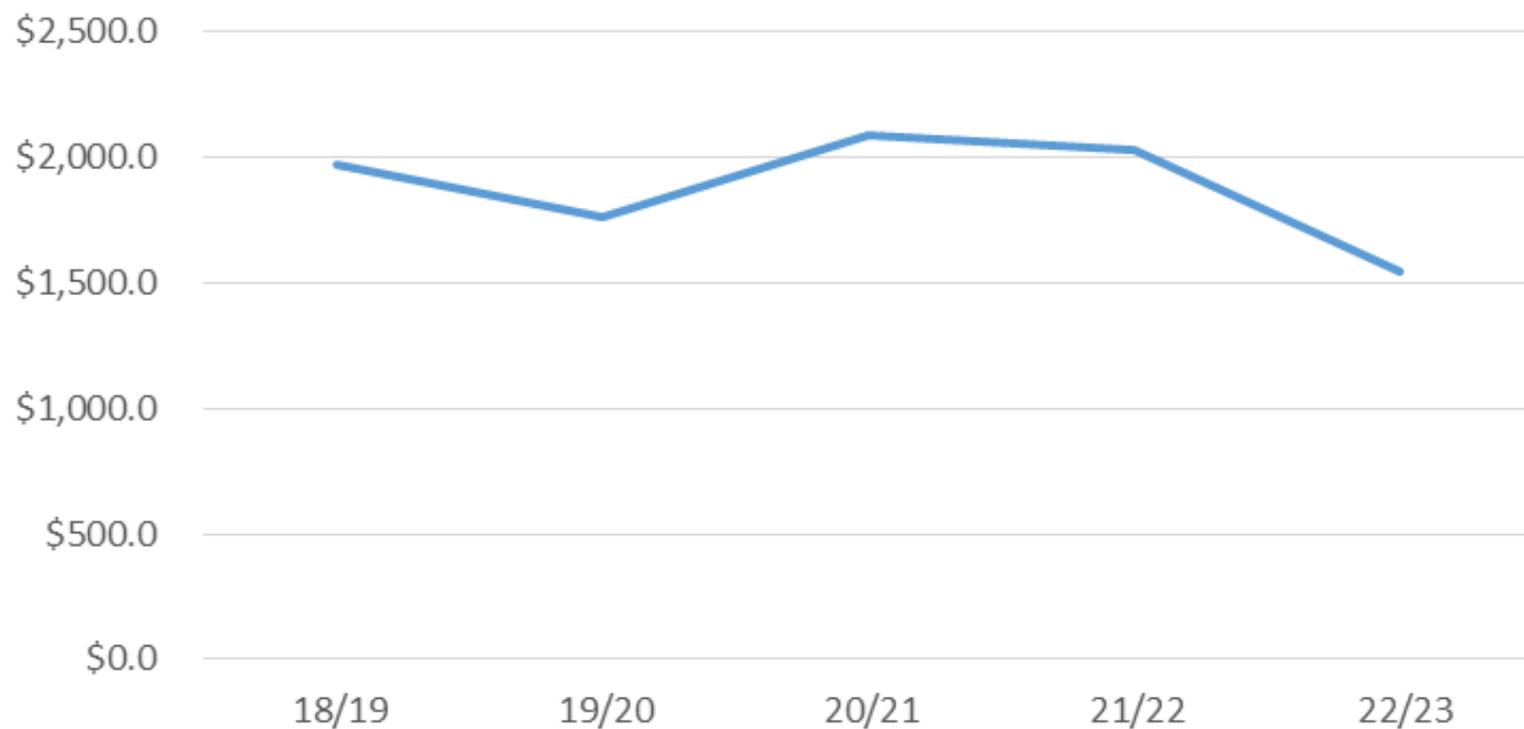
MHSA Component Funding

- Funds distributed to counties are considered component funding
 - Excludes funds expended and reserved
- Funding for No Place Like Home debt service is excluded from component funding
 - \$53.7 million in FY19/20
 - \$92.4 million in FY20/21
 - \$114.0 million in FY21/22
 - \$130.0 million in FY22/23
 - Up to \$140 million
- Anticipate large fluctuations in funding
 - Expect large annual adjustments in FY20/21 and FY21/22 due to capital gains spike in 2018 and 2019
 - Expect lower annual adjustment in FY22/23 due to COVID-19 impact on 2020 economy
- Estimated component funding does not include redistributed funds based on reversion

MHSA Estimated Component Funding (Cash Basis-Millions of Dollars)

	Fiscal Year				
	Actual		Estimated		
	18/19	19/20	20/21	21/22	22/23
CSS	\$1,501.4	\$1,337.2	\$1,589.7	\$1,542.0	\$1,176.0
PEI	\$375.3	\$334.3	\$397.4	\$385.5	\$294.0
Innovation	\$98.8	\$88.0	\$104.6	\$101.4	\$77.4
Total	\$1,975.5	\$1,759.5	\$2,091.7	\$2,028.9	\$1,547.4

MHSA Estimated Component Funding (Cash Basis-Millions of Dollars)



MHSA-Key Points

- Income taxes on very few high income earners fund MHSA irrespective of the demand or need for services
 - Revenues are volatile
- Part of FY19/20 decrease and subsequent FY 20/21 increase due to delay of tax filing and payment deadlines
 - Large August 2020 distribution partially due to deferral of FY19/20 revenues
- Large estimated decrease in FY22/23 due to economic conditions in 2020
- Amount of county funding is not guaranteed
 - More risk to counties

MHSA-Key Points

- Cash flow varies significantly during the fiscal year
 - 40% of MHSA cash transfers received in last three months of fiscal year
- MHSA provides tools to manage funding
 - Local prudent reserve
 - Three year reversion period (five years for small counties) for unspent CSS, PEI and Innovation funds
- All expenditures must be consistent with an approved MHSA Plan
- State recalculates allocation based on growth since FY 12/13 making it somewhat difficult to predict individual county allocations