Mental Health Services Act Fiscal Forecast

California Institute for Behavioral Health Solutions

September 2, 2020

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Geiss Consulting
FY20/21 Estimated Community Mental Health Funding
(Dollars in Millions)

- SGF/Other: $350.0
- 1991 MH Realignment: $1,250.3
- FFP: $2,747.8
- 2011 MH Realignment: $1,135.9
- MHSA: $2,091.7
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)

<table>
<thead>
<tr>
<th></th>
<th>2016-17</th>
<th>2017-18</th>
<th>2018-19</th>
<th>2019-20</th>
<th>2020-21</th>
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<tbody>
<tr>
<td>Governor's January Budget</td>
<td>536.0</td>
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<td>May Budget Revision</td>
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<td>Actual Adjustment</td>
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<td>523.0</td>
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</table>
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)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Estimated</th>
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<tbody>
<tr>
<td></td>
<td>18/19</td>
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<tr>
<td>Cash Transfers</td>
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<td>Annual Adjustment</td>
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<td>Interest</td>
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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)*

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Actual</th>
<th>Estimated</th>
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<tbody>
<tr>
<td></td>
<td>18/19</td>
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<tr>
<td>CSS</td>
<td>$1,501.4</td>
<td>$1,337.2</td>
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<td>PEI</td>
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<td>Innovation</td>
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<td>Total</td>
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<td>$1,759.5</td>
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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