

Mental Health Services Act Fiscal Overview

California Institute for Behavioral Health Solutions

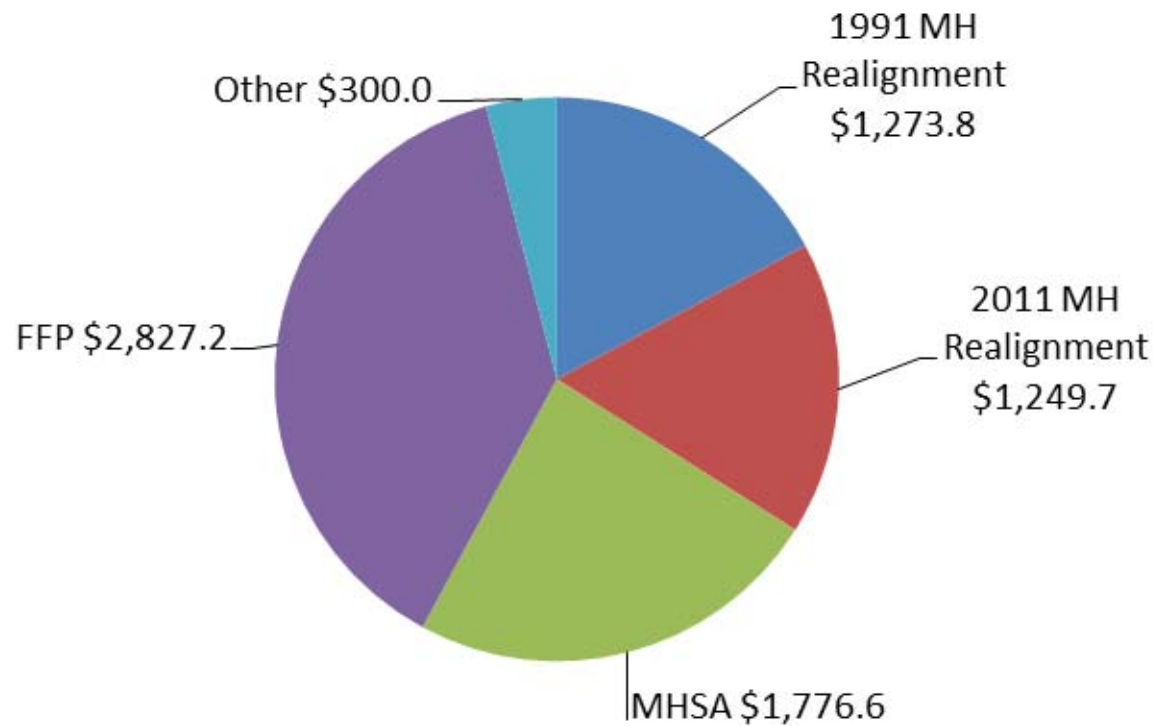
April 17, 2018

Mike Geiss



FY18/19 Estimated Community Mental Health Funding

(Dollars in Millions)



Mental Health Services Act Revenues

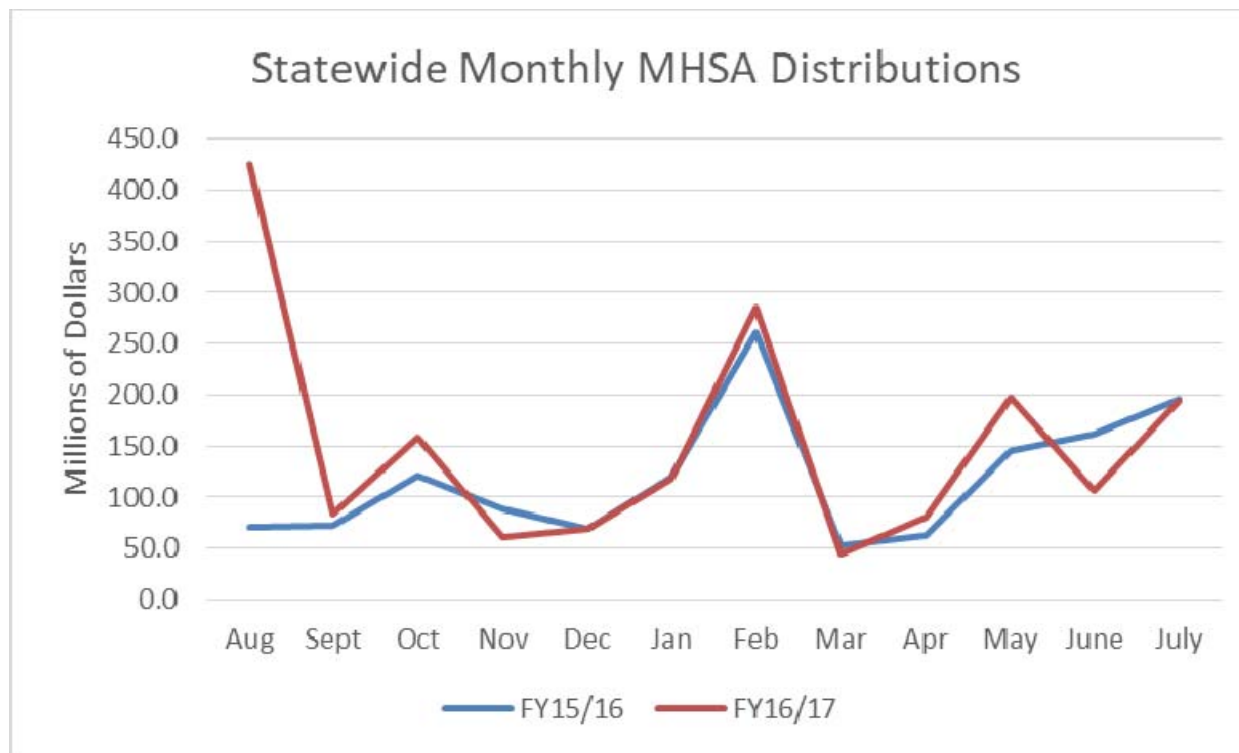
- The MHSA created a 1% tax on income in excess of \$1 million to expand mental health services
- Approximately 1/10 of one percent of tax payers are impacted by tax
- Two primary sources of deposits into State MHS Fund
 - 1.76% of all monthly personal income tax (PIT) payments (Cash Transfers)
 - Annual Adjustment based on actual tax returns
 - Settlement between monthly PIT payments and actual tax returns
- Other deposits
 - Interest income (posted quarterly)
 - Excess State Administration (unauthorized and unexpended)
 - Reverted funds

Mental Health Services Act Revenues

- Annual Adjustments are incredibly volatile
 - Two year lag
 - Known by March 15th
 - Deposited on July 1st
- Funds distributed on a monthly basis (W&I Code Section 5892(j)(5))
 - 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

Mental Health Services Act Revenues

- Cash Transfers are largest in months following quarterly tax payments and year end tax payments



MHSA County Funding

- Individual county allocation percentages are based on:
 - Estimated need for services
 - Self-sufficiency and resources
 - Small county minimum allocations
 - Information Notice 17-041 describes methodology
- Counties receive one warrant (check) from the state
 - County responsible for ensuring compliance with W&I Code Section 5892(a)
 - 20% for Prevention and Early Intervention programs
 - Balance for Community Services and Supports (System of Care)
 - 5% of total funding shall be utilized for Innovative programs
- Each county required to have a local Mental Health Services fund in which interest earned remains in the fund

MHSA County Funding

- Beginning in FY 08/09, counties can annually dedicated up to 20% of the average of their 5-year total of MHSA funds to the Prudent Reserve, Cap/Tech, or WET programs/projects
- Counties may use up to 5% of their total annual MHSA revenues for planning and supporting consumers, family members, stakeholder and contractors in local planning processes

MHSA County Expenditures

- Counties are required to prepare a Three Year Program and Expenditure Plan
 - Estimated funding by component
 - Estimated expenditures by component
- Gain approval of Plan through annual stakeholder process
- All MHSA expenditures are required to be in accordance with an approved Plan
- MHSA funds cannot be used to supplant existing resources
- Counties required to prepare and submit MHSA Annual Revenue and Expenditure Reports

Prudent Reserve

- Counties are required to establish and maintain a prudent reserve to ensure the county can continue services in years in which revenues are below recent averages (W&I Code Section 5847(b)(7))
- Counties can include an allocation of funds from their prudent reserve in years in which there is not adequate funding to continue to serve the same number of individuals as in the prior year (W&I Code Section 5847(f))
- In any year after FY07/08, CSS programs may include funds for technological needs and capital facilities, human resource needs, and a prudent reserve to ensure services do not have to be significantly reduced in years in which revenues are below the average of previous years (W&I Code Section 5892(b))
 - Limited to 20% of the average amount of funds allocated to a county for the previous five years

MHSA Reversion

- Welfare and Institutions Code specifies that funds must be spent within a certain time period or returned to the state
 - CSS, PEI and Innovation must be spent within three years
 - WET and CFTN must be spent within 10 years
 - Funds dedicated to Prudent Reserve are exempt from reversion
 - Reversion period starts at beginning of fiscal year in which funds are available
- AB114 changed the timeframe for small counties to five years, and specified that the timeframe for innovation funds doesn't start until a project is approved by the MHSA OAC
- AB114 amended the MHSA to allow funds subject to reversion as of July 1, 2017 to be reallocated to the county of origin

MHSA Reversion

- Information Notice 17-059 provides the process DHCS is using to implement the provisions of AB114
 - DHCS has authority to implement, interpret and make specific the provisions of AB114 through Information Notices
 - The policies provided in Information Notice 17-059 supersede all other reversion policies developed by former Department of Mental Health
 - DHCS sent notice of unspent funds subject to reversion based on the MHSA Annual Revenue and Expenditures submitted by each county
 - Counties required to develop expenditure plan by July 1, 2018, on how the county intends to spend the funds by June 30, 2020

Projecting Revenues

- State provides revenue estimates for MHSA as part of January Governor's Budget and May Budget Revision
- <http://www.ebudget.ca.gov/>

REVENUE ESTIMATES

income tax revenues for 2016-17 through 2018-19 are shown in Figure REV-07.

Figure REV-07
Personal Income Tax Revenue
(Dollars in Thousands)

	2016-17 Preliminary	2017-18 Forecast	2018-19 Forecast
General Fund	\$82,857,006	\$89,403,019	\$93,593,240
Mental Health Services Fund	1,795,735	2,088,826	2,229,393
Total	\$84,652,741	\$91,491,845	\$95,822,633

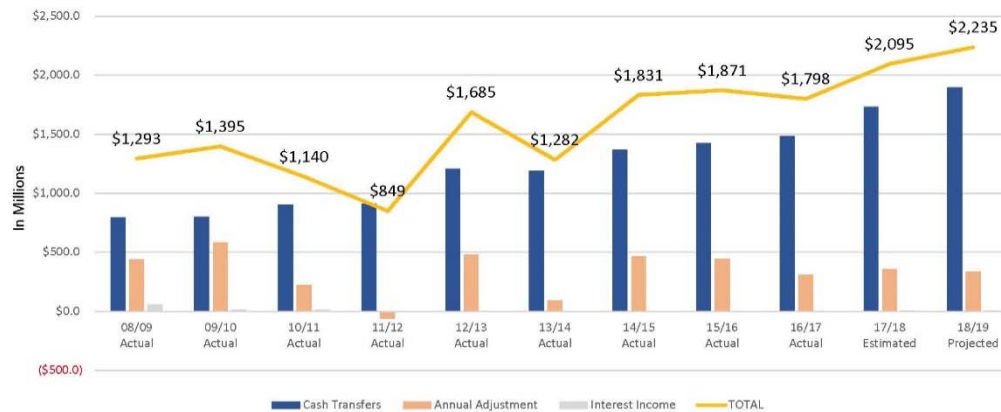
Projecting Revenues

- MHSOAC Financial Oversight Committee prepares a Financial Report that is presented to the MHSOAC in January and May
- <http://mhsaac.ca.gov/>

Appendix 2: Total MHS A Revenue

FY 08/09 - 18/19

This graph and chart displays in more detail the information found on the graph on page two, Total MHS A Revenue. The dollars identified below tie to Fund Condition Statement figures published by DOF.



	08/09 Actual	09/10 Actual	10/11 Actual	11/12 Actual	12/13 Actual	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Actual	17/18 Estimated	18/19 Projected
Cash Transfers	\$797.0	\$799.0	\$905.0	\$910.0	\$1,204.4	\$1,187.4	\$1,366.5	\$1,423.5	\$1,484.1	\$1,729.7	\$1,894.3
Annual Adjustment	\$438.0	\$581.0	\$225.0	(\$64.0)	\$479.8	\$94.3	\$464.1	\$446.0	\$311.7	\$359.2	\$335.1
Interest Income	\$57.6	\$14.9	\$9.7	\$2.7	\$0.7	\$0.5	\$0.8	\$1.2	\$2.6	\$5.9	\$5.9
TOTAL	\$1,292.6	\$1,394.9	\$1,139.7	\$848.7	\$1,684.9	\$1,282.2	\$1,831.5	\$1,870.8	\$1,798.3	\$2,094.7	\$2,235.3

Sources: Health and Human Services budget details, FY2018-19 and staff projections
Jan 2018
Updated Semi-Annually

Projecting Revenues

- Legislative Analyst Office prepares a Fiscal Outlook Report as part of the budget process
- <http://lao.ca.gov/>

Revenue Outlook Through 2021-22

LAO November 2017 General Fund Estimates (Dollars in Billions)

Growth Scenario	Estimates		Outlook				Average Annual Growth ^a
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	
Personal income tax	\$83.0	\$90.9	\$95.8	\$99.8	\$104.7	\$110.5	5.0%
Sales and use tax	24.9	25.3	26.2	27.1	28.0	28.9	3.4
Corporation tax	10.0	10.6	11.0	11.6	12.1	12.6	4.5
Subtotal, Three Largest Revenues	(\$117.9)	(\$126.8)	(\$133.0)	(\$138.5)	(\$144.8)	(\$152.0)	(4.6%)
Insurance tax	\$2.4	\$2.3	\$2.4	\$2.6	\$2.7	\$2.8	4.3%
Other revenues	1.7	1.5	1.6	1.7	1.7	1.7	2.2
Transfer from/(to) rainy day fund	-3.0	-3.2	-1.9	-1.4	-1.2	-1.2	-22.2
Net other transfers, in/(out)	-0.5	-0.5	0.4	0.3	0.3	0.4	N/A
Total, Revenues & Transfers	\$118.5	\$127.0	\$135.5	\$141.7	\$148.2	\$155.7	5.2%
Percent Change		7.1%	6.7%	4.6%	4.6%	5.0%	
Recession Scenario	Estimates		Outlook				Average Annual Growth ^a
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	
Personal income tax	\$83.0	\$90.9	\$95.8	\$86.2	\$77.6	\$82.6	-2.4%
Sales and use tax	24.9	25.3	26.2	26.0	25.8	26.3	1.0
Corporation tax	10.0	10.6	11.0	9.9	8.9	10.2	-1.0%
Subtotal, Three Largest Revenues	(\$117.9)	(\$126.8)	(\$133.0)	(\$122.1)	(\$112.3)	(\$119.1)	(-1.6%)
Insurance tax	\$2.4	\$2.3	\$2.4	\$2.6	\$2.7	\$2.8	4.3%
Other revenues	1.7	1.5	1.6	1.7	1.7	1.7	2.2
Transfer from/(to) rainy day fund	-3.0	-3.2	-1.9	—	—	—	—
Net other transfers, in/(out)	-0.5	-0.5	0.4	0.3	0.3	0.4	N/A
Total, Revenues & Transfers	\$118.5	\$127.0	\$135.5	\$126.6	\$116.9	\$123.9	-0.6%
Percent Change		7.1%	6.7%	-6.5%	-7.7%	6.0%	

^aFrom 2017-18 to 2021-22.

Projecting Revenues

- Department of Finance provides monthly Finance Bulletin that reports actual versus estimated transfers to the State MHS Fund
- [http://dof.ca.gov/Forecasting/Economics/Economic and Revenue Updates/](http://dof.ca.gov/Forecasting/Economics/Economic%20and%20Revenue%20Updates/)

MONTHLY CASH REPORT

Preliminary General Fund agency cash for February was \$297 million below the 2018-19 Governor's Budget forecast of \$5.242 billion. The decrease below the month's forecast is likely due in part to taxpayer reaction to Federal tax law changes enacted in late December. Year-to-date revenues are \$2.581 billion above the forecast of \$78.539 billion.

- Personal income tax revenues to the General Fund were \$357 million below the month's forecast of \$3.106 billion. Withholding receipts were \$11 million below the forecast of \$5.164 billion. Refunds issued in February were \$293 million higher than the forecast of \$2.552 billion. Other receipts were \$59 million below the forecast of \$550 million. Proposition 63 requires that 1.76 percent of total monthly personal income tax collections be transferred to the Mental Health Services Fund (MHSF). The amount transferred to the MHSF in February was \$6 million below the forecast of \$56 million. Year-to-date General Fund income tax revenues are \$2.008 billion above forecast.

Projecting Revenues

- Other sources estimate changes in California personal income tax revenues
 - Beacon Economics, University of the Pacific, UCLA
- Very difficult to estimate the annual adjustment
 - State's estimate is typically 50% or more off from actual
- Personal income tax receipts are impacted by changes in fiscal policies not related to MHSA
 - January, 2013 total Personal Income Tax Collections were significantly higher than anticipated
 - Due to primarily higher than anticipated 2012 estimated tax payments
 - Proposition 30 created three higher income tax brackets for families with taxable income above \$500,000 retroactive to 2012
 - Reduced Federal tax rates expired at the end of 2012 increasing taxes for dividend income and capital gains in 2013
 - State tax law change does not impact amount earned in State MHS Fund
 - Increases cash transfers but decreases annual adjustment
 - Federal tax law change may marginally impact amount earned in State MHS Fund

Tracking Revenues

- State Controller's Office provides monthly schedule of MHSA distributions to each county
- https://www.sco.ca.gov/ard_payments_mentalhealthservicefund.html

**State Controller's Office
Local Government Programs and Services Division
FY 2017 - 2018**

	8/15/2017	9/15/2017	10/13/2017	11/15/2017	12/15/2017	1/12/2018	2/15/2018	3/15/2018
SISKIYOU COUNTY	664,606.11	147,572.58	203,301.31	160,262.26	118,777.20	241,024.26	577,720.59	64,341.95
SOLANO COUNTY	4,163,983.76	924,592.51	1,273,751.98	1,004,097.66	744,179.63	1,412,037.68	3,582,722.51	389,015.32
SONOMA COUNTY	4,735,291.62	1,051,448.66	1,448,513.59	1,141,862.10	846,282.74	1,633,807.90	4,084,827.87	454,935.85
STANISLAUS COUNTY	5,515,722.63	1,224,739.60	1,687,245.44	1,330,054.23	985,759.95	1,762,404.93	4,705,129.06	524,020.10
SUTTER COUNTY	1,857,089.95	412,357.87	568,079.07	447,816.27	331,895.75	592,188.35	1,583,720.97	176,382.33
TEHAMA COUNTY	814,067.12	180,759.68	249,021.05	196,303.09	145,488.60	259,179.79	694,079.95	77,301.14
TRI - CITY	2,361,159.33	524,284.04	722,272.60	589,366.91	421,982.12	804,424.14	2,032,965.19	226,415.60
TRINITY COUNTY	377,244.65	83,765.35	115,398.17	90,968.29	67,420.48	123,592.65	322,953.58	35,968.02
TULARE COUNTY	5,136,239.23	1,140,477.14	1,571,162.44	1,238,546.09	917,939.36	1,764,283.70	4,427,741.22	493,126.83
TUOLUMNE COUNTY	734,020.10	162,985.62	224,534.87	177,000.66	131,182.74	275,416.93	641,528.47	71,448.37
VENTURA COUNTY	8,740,994.27	1,940,895.61	2,673,847.79	2,107,792.06	1,562,174.65	2,748,677.71	7,439,754.08	828,581.03
YOLO COUNTY	2,312,943.92	513,578.04	707,523.63	557,740.31	413,365.15	760,277.16	1,981,022.26	220,630.61
Total	421,610,749.59	93,616,633.19	128,969,649.83	101,666,671.13	75,349,508.96	135,881,566.34	360,089,622.83	40,103,937.07

MHSA Estimated Revenues
(Cash Basis-Millions of Dollars)

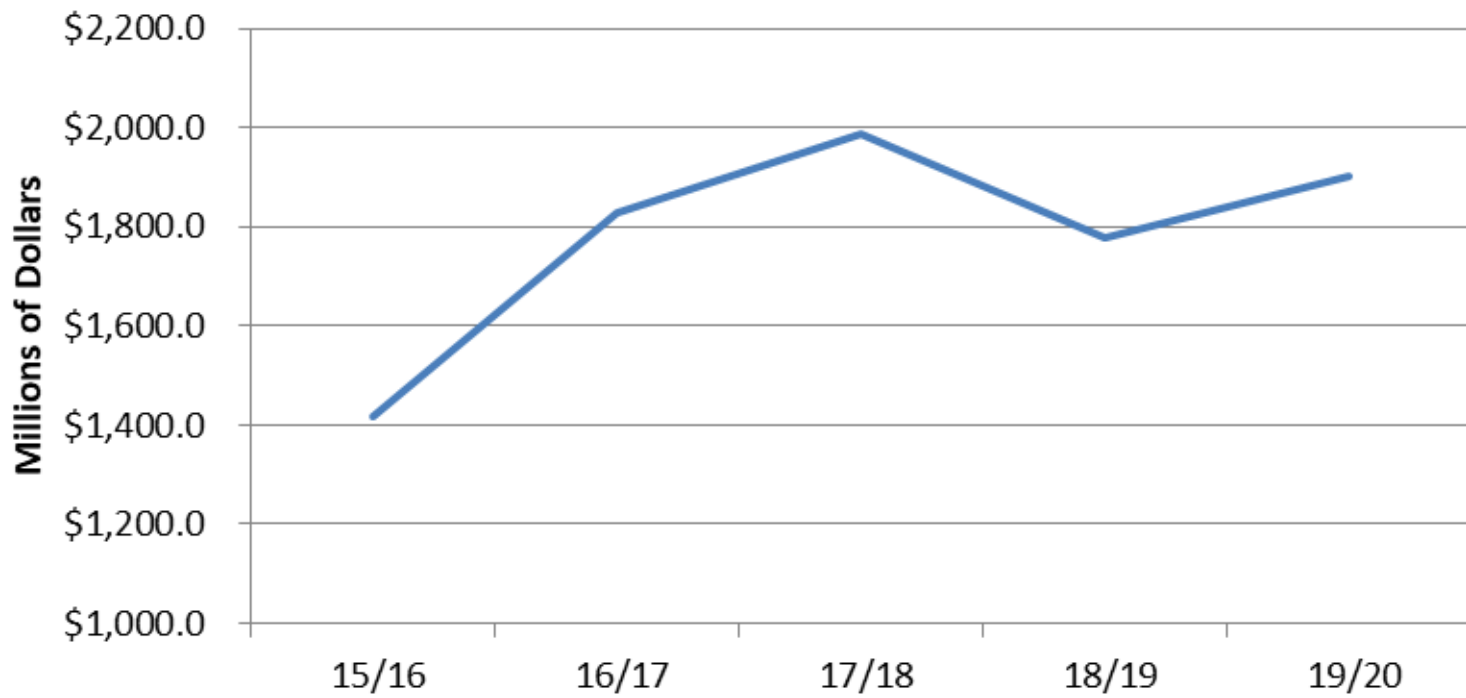
	Fiscal Year				
	Actual	Estimated			
	15/16	16/17	17/18	18/19	19/20
Cash Transfers	\$1,422.3	\$1,484.1	\$1,677.0	\$1,778.0	\$1,822.0
Annual Adjustment	\$94.3	\$464.1	\$446.0	\$272.5	\$359.2
Interest	\$1.2	\$2.6	\$5.9	\$5.9	\$5.9
Total	\$1,517.8	\$1,950.8	\$2,128.9	\$2,056.4	\$2,187.1

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

	Fiscal Year				
	Actual		Estimated		
	15/16	16/17	17/18	18/19	19/20
CSS	\$1,078.3	\$1,388.6	\$1,511.2	\$1,350.2	\$1,444.6
PEI	\$269.6	\$347.1	\$377.8	\$337.6	\$361.1
Innovation ^{a/}	\$70.9	\$91.4	\$99.4	\$88.8	\$95.0
Total	\$1,418.8	\$1,827.0	\$1,988.4	\$1,776.6	\$1,900.7

a/ 5% of the total funding must be utilized for innovative programs (W&I Code Section 5892(a)(6)).

Estimated MHSA Component Funding



Politics

- Potentially large amounts of unspent funds in counties
- Different groups want access to funds for specific purposes
- State has not published fiscal regulations prescribing reversion process
- State has not published regulations regarding audit and appeal process
 - Only two fiscal consequences in MHSA are reversion and plan of correction

MHSA-Key Points

- Income taxes on very few high income earners fund MHSA irrespective of the demand or need for services
 - Revenues are volatile
- Amount of county funding is not guaranteed
 - More risk to counties
- 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
- Redirection of MHSA Funds for statewide activities
 - No Place Like Home debt service