Mental Health Services Act Fiscal Changes & Implications

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- Prudent Reserve Limit
- Recommended MHSA Reserve Levels
- Forecasting MHSA Revenues and Distributions
- Use of MHSA Funding
- Reversion of MHSA Funds

Prudent Reserve Limit

- SB 192 added a subsection to the MHSA that requires counties to establish a prudent reserve that does not exceed 33 percent of the average CSS revenue received in the local MHS Fund in the preceding five years
  - Counties can still transfer up to 20 percent of the average amount of total funds allocated to the county in the preceding five years from CSS to WET, CF/TN and/or the Prudent Reserve
- DHCS Information Notice 19-017 provides guidance on how to calculate maximum prudent reserve amount
  - Five fiscal years (FY13/14 through FY17/18)
  - Sum of total distributions from July 2013 through June 2018 multiplied by 76 percent divided by 5 multiplied by 33 percent

Prudent Reserve Limit

- Does not factor in CSS transfers to CF/TN, WET and/or the prudent reserve during the five year period
- Does not include interest earned on the local MHS Fund balance
- Counties must complete the calculations and certify form DHCS 1819
  - Submit calculations and certification to DHCS and OAC by June 30, 2019
  - Must also include in FY19/20 MHSA Annual Update

Prudent Reserve Limit

- Counties that exceed the limit have until June 30, 2020 to move the funds from the prudent reserve to CSS and PEI (if applicable)
  - Based on proportion of CSS transferred to the prudent reserve through FY18/19 and PEI transferred to the prudent reserve in FY07/08
    - Divide total amount of PEI funds transferred to the prudent reserve by total amount transferred to the prudent reserve through FY18/19 to determine amount of excess prudent reserve that should be transferred to PEI
    - Balance of excess prudent reserve transferred to CSS
  - Include transfer(s) in FY19/20 MHSA Annual Update
  - Report transfer(s) on FY19/20 MHSA Annual Revenue and Expenditure Report
- FY19/20 considered year one for purposes of reversion

Prudent Reserve Limit

- Calculation and certification of compliance with prudent reserve maximum required every five years
  - Next calculation and certification due to DHCS and the OAC June 30, 2024
  - Encompasses FY18/19 through FY22/23
  - Include as part of FY24/25 MHSA Three Year Program and Expenditure Plan, Annual Update, or update
- DHCS developed proposed MHSA regulations to implement provisions in Information Notice 19-017
  - Would require a minimum prudent reserve of 23 percent
  - Regulations differ from Information Notice in that excess prudent reserve funds could only be transferred to CSS under regulations

Prudent Reserve Limit

- Consider factors that impact the Prudent Reserve limit
  - Annual MHSA Revenues
    - Economy-overall revenues earned by the MHS Fund
    - Tax Policy-timing of revenues deposited in the MHS Fund
  - Annual Statewide MHSA Distributions
    - Implementation of No Place Like Home
    - Potential new legislation that redirects MHSA funds for other purposes (i.e., WET)
  - Individual County Allocation Percentages
    - Growth based on factors identified in DHCS Information Notice 18-038

Recommended MHSA Reserve Levels

- Primary reasons to have reserves
  - Decline in MHSA county distributions
    - Based on decline in MHSA revenues and/or use of Statewide MHSA funds for other purposes
    - Counties would have required an 80 percent reserve to address lower distributions in FY10/11 through FY14/15, adjusted for inflation
  - Medi-Cal audit disallowances
    - A disallowance of federal reimbursement in an MHSA program would require use of additional MHSA funds to cover the disallowance
    - Individual county risk is based on extent of county's use of MHSA in Medi-Cal programs
- Each county should assess local need for reserve
  - Balance between providing necessary services and being able to sustain programs

Recommended MHSA Reserve Levels

- Counties have two tools to manage “reserve” levels
  - Prudent Reserve
    - Only available for CSS
    - Limited to 33 percent of CSS distributions
  - Reversion Period for Unspent Funds
    - Counties have a minimum of three years to expend funds
    - More flexible than Prudent Reserve
- Reserve level for on-going programs (CSS and PEI)
  - At least 50 percent of on-going <u>expenditures</u>
    - Would help mitigate program reductions during economic downturn
    - 33 percent prudent reserve for CSS
    - Unexpended funds
- Innovation is time limited projects which should be budgeted based on existing unspent revenues and near term projected revenues so no need for reserves
- CF/TN and WET are more project specific so no need for reserves

Use of Prudent Reserve

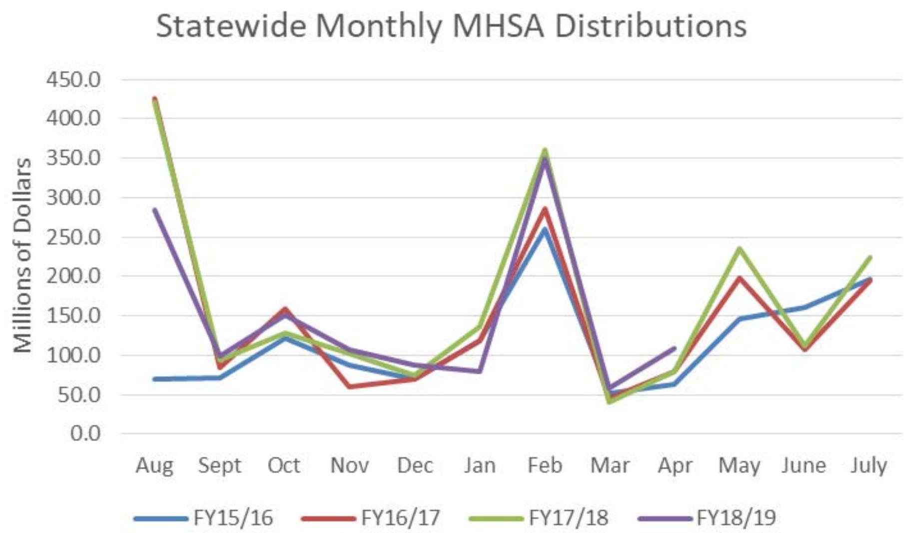
- Counties are required to establish and maintain a prudent reserve to ensure the county can continue services in years in which revenues are below recent averages (W&I Code Section 5847(b)(7))
  - Includes use of prudent reserve for both CSS and PEI
  - Determined by DHCS
- Counties can include an allocation 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))
  - Use of CSS prudent reserve
  - Determined (and documented) by county

Mental Health Services Act Revenues

- The MHSA created a 1% tax on income in excess of $1 million to expand mental health services
- 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

- Funds distributed to counties monthly based on unspent and unreserved monies in State MHS Fund at end of prior month
- Cash Transfers are largest in months with quarterly tax payments and year end tax payments
  - January, April, June and September
- Annual Adjustments are incredibly volatile
  - Two year lag
  - Known by March 15th
  - Deposited on July 1st



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

Health Services Fund shares of personal income tax revenues for 2017-18 through 2019-20 are shown in Figure REV-07.

Figure REV-07

Personal Income Tax Revenue

(Dollars in Thousands)

	2017-18 Preliminary	2018-19 Forecast	2019-20 Forecast
General Fund	$94,271,687	$97,719,594	$100,547,481
Mental Health Services Fund	2,089,434	2,388,754	2,368,174
Total	**$96,361,121**	**$100,108,348**	**$102,915,655**

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)

	Estimates		Outlook				Average Annual
Growth Scenario	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**Growth[a]**
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%	

	Estimates		Outlook				Average Annual
Recession Scenario	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**Growth[a]**
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
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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%	

[a]From 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/

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.

Tracking Revenues

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

	Mental Health Services	25% Withhold Amount	Returned 25% Withhold Amount	Payment Amount
SISKIYOU COUNTY	$175,301.47	-$43,825.37	$0.00	$131,476.10
SOLANO COUNTY	$1,074,187.61	$0.00	$0.00	$1,074,187.61
SONOMA COUNTY	$1,237,773.29	$0.00	$0.00	$1,237,773.29
STANISLAUS COUNTY	$1,402,863.38	$0.00	$0.00	$1,402,863.38
SUTTER COUNTY	$504,022.72	$0.00	$0.00	$504,022.72
TEHAMA COUNTY	$208,481.95	-$52,120.49	$0.00	$156,361.46
TRI - CITY	$611,566.04	$0.00	$0.00	$611,566.04
TRINITY COUNTY	$99,030.22	$0.00	$0.00	$99,030.22
TULARE COUNTY	$1,323,625.55	$0.00	$0.00	$1,323,625.55
TUOLUMNE COUNTY	$194,557.73	$0.00	$0.00	$194,557.73
VENTURA COUNTY	$2,233,265.71	$0.00	$0.00	$2,233,265.71
YOLO COUNTY	$591,327.40	$0.00	$0.00	$591,327.40
Total	108,309,061.96	-$1,546,107.81	$41,272.88	106,804,227.03

Apportionment Payment Report For Apportionment Fiscal Period with Factors
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MHSA Estimated Revenues

(Cash Basis-Millions of Dollars)

	Fiscal Year				
	Actual	**Estimated**			
	16/17	**17/18**	**18/19**	**19/20**	**20/21**
Cash Transfers	$1,484.1	$1,660.8	$1,756.8	$1,808.2	$1,860.6
Annual Adjustment	$464.1	$446.0	$272.5	$443.6	$632.0
Interest	$2.6	$5.3	$9.4	$9.4	$9.4
Total	$1,950.8	$2,112.1	$2,038.7	$2,261.2	$2,502.0

MHSA Estimated Component Funding

(Cash Basis-Millions of Dollars)

	Fiscal Year				
	Actual		Estimated		
	16/17	17/18	18/19	19/20	20/21
CSS	$1,388.6	$1,527.1	$1,450.8	$1,597.8	$1,742.9
PEI	$347.1	$381.8	$362.7	$399.5	$435.7
Innovation[a/]	$91.4	$100.5	$95.4	$105.1	$114.7
Total	$1,827.0	$2,009.3	$1,908.9	$2,102.4	$2,293.3

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

MHSA Component Funding

- Funding for No Place Like Home debt service has been removed from component funding
  - $62 million in FY19/20 and $88 million in FY20/21
  - Maximum of $140 million when fully implemented in FY22/23
  - Counties can estimate their reduction in MHSA funding by multiplying the county allocation percentage by $130 million for 30 years
- Anticipate continued growth in funding through FY20/21
  - Decrease in FY18/19 due to lower annual adjustment
  - Expect large annual adjustments in FY20/21 and FY21/22 due to capital gains spike in 2018 and 2019
- Estimated component funding has not been adjusted to:
  - Include reverted/redistributed funds
  - Exclude proposals for redirected funds

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

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
- AB 114 modified the MHSA Reversion statute
  - Counties with a population of less than 200,000 have five years to expend funds
  - The expenditure period for Innovation Funds does not begin until the MHS Oversight and Accountability Commission approves an Innovation program

MHSA Reversion

- Unspent funds subject to reversion as of July 1, 2017 are "reverted" and reallocated to the county of origin
  - Effect is no funds are subject to reversion prior to July 1, 2017
  - County must have a plan for how reallocated funds will be spent
  - Reallocated funds must be spent by July 1, 2020