Orange County MHSA Steering Committee

MHSA Fiscal Update

October 21, 2019

Mike Geiss

MHSA Fiscal Update

• MHSA Revenue Update
• MHSA Reversion
• Prudent Reserve
• MHSA Fiscal Planning
• Other Community Mental Health Funding
Mental Health Services Act

- 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 taxpayers 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

Mental Health Services Act

- 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
- Funds distributed to counties monthly based on unspent and unreserved monies in State MHS Fund at end of prior month
  - Orange County receives approximately 8.1% of statewide MHSA distributions
MHSA Estimated Revenues

• Sources for projections:
  • FY19/20 May Budget Revision to the Governor’s Budget
  • Department of Health Care Services Mental Health Services Act Expenditure Report (Governor’s May Revise, May 2019)
  • Legislative Analyst Office estimate of personal income tax revenues
  • MHSUDS Information Notice 19-043

MHSA Estimated Statewide Revenues

<table>
<thead>
<tr>
<th>MHSA Estimated Revenues</th>
<th>(Cash Basis-Millions of Dollars)</th>
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<tbody>
<tr>
<td>Fiscal Year</td>
<td>Actual</td>
</tr>
<tr>
<td>Cash Transfers</td>
<td>$1,660.8</td>
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<tr>
<td>Annual Adjustment</td>
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<td>Interest</td>
<td>$5.3</td>
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<td>Total</td>
<td>$2,112.1</td>
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Orange County Estimated MHSA Funding

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Actual</th>
<th>Estimated</th>
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<tbody>
<tr>
<td>17/18</td>
<td>$124.9</td>
<td>$131.2</td>
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<tr>
<td>18/19</td>
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<td>$140.0</td>
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<td>20/21</td>
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**Orange County MHSA Estimated Component Funding**

(Millions of Dollars)

- **CSS**: $124.9, $121.8, $131.2, $138.0, $139.2
- **PEI**: $31.2, $30.5, $32.8, $34.5, $34.8
- **Innovation**: $8.2, $8.0, $8.6, $9.1, $9.2
- **Total**: $164.3, $160.3, $172.6, $181.6, $183.2

**MHSA Component Funding**

- Funding for No Place Like Home debt service is excluded from component funding
  - $500 million in bonds to be sold on November 19, 2019
  - Debt service of $62 million in FY19/20 to $140 million when fully implemented in FY22/23
- Anticipate continued growth in funding through FY20/21
  - Decrease in FY18/19 was 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 does not include reverted funds
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
- Under AB 114, 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 was required to provide a plan for how reallocated funds will be spent
  - Reallocated funds must be spent by July 1, 2020

Prudent Reserve

- Welfare and Institutions Code Section 5892(b)(2) requires counties to maintain a prudent reserve that does not exceed 33 percent of the average CSS revenue received in the prior five years
  - DHCS Information Notice 19-037 specified the limit for each county
  - Orange County transferred $26.3 million of excess prudent reserve as part of FY19/20 MHSA Plan Update
  - Funds must be spent within three years (i.e., by June 30, 2022)
- DHCS developed proposed MHSA regulations that would require a minimum prudent reserve of 23 percent
MHSA Fiscal Planning

• Amount of funding is not guaranteed
• Cash flow will vary during the fiscal year

MHSA Fiscal Planning

• Use tools provided in MHSA to manage funding
  • Local prudent reserve
  • Three year reversion period for unspent CSS, PEI and Innovation funds
• Two year lag of Annual Adjustment helps balance any sudden downturn in Personal Income Tax revenue
• Maximum prudent reserve is most likely not sufficient to sustain all programs during an economic downturn
Other Community Mental Health Funding

• 1991 Realignment
  • Orange County has a minimum base of approximately $75 million in FY18/19
    • Includes VLF Collection
  • Have not received any growth for the last three fiscal years due to Discontinuance of the Coordinated Care Initiative (CCI)
    • No growth in mental health for FY16/17 through FY18/19
    • Should see growth in FY19/20
      • Orange County growth anticipated to be $4 million to $5 million
      • Won’t receive FY19/20 growth until FY20/21

• 2011 Realignment Behavioral Health Subaccount
  • Funds in the Behavioral Health Subaccount must be used to fund:
    • Residential perinatal drug services and treatment
    • Drug court operations and services
    • Nondrug Medi-Cal substance abuse treatment programs
    • Drug/Medi-Cal program
    • Medi-Cal specialty mental health services, including Early and Periodic Screening, Diagnosis and Treatment program and mental health managed care
  • The 2011 Realignment statute does not specify how much needs to be spent on each program
  • Orange County received approximately $52.9 million in FY18/19 base funding and anticipate $2 million to $3 million in FY18/19 growth
  • Anticipate revenues to continue to increase based on growth in State sales tax
Other Community Mental Health Funding

• Budget includes State General Fund monies
  • Continuum of Care Reform
    • FY19/20 - $11.7 million
  • EPSDT Performance Outcome System
    • FY19/20 - $6.8 million
  • Managed Care Regulations Implementation
    • FY19/20 - $7.7 million
  • Managed Care Regulations Mental Health Parity
    • FY19/20 - $2.8 million

Other Community Mental Health Funding

• Budget includes State General Fund monies
  • Increased State Share for ACA Medi-Cal Clients
    • FY19/20 - $73.9 million
  • State Reimbursement for SB75 Children
    • FY19/20 - $46.9 million
  • Additional Utilization Review Costs
    • FY19/20 - $1.0 million