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 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
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
  - Counties receive one amount not identified by component
  - Orange County receives approximately 8.1% of statewide MHSA distributions

MHSA Estimated Revenues

- Sources for projections:
  - FY17/18 May Budget Revision
  - Department of Health Care Services Mental Health Services Act Expenditure Report (Governor’s May Revise, May 2017)
  - Legislative Analyst Office estimate of personal income tax revenues
    - Assumes continued economic growth through 2020
## MHSA Estimated Statewide Revenues

### MHSA Estimated Revenues
(Cash Basis—Millions of Dollars)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Actual</th>
<th>Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14/15</td>
<td>15/16</td>
</tr>
<tr>
<td>Cash Transfers</td>
<td>$1,355.0</td>
<td>$1,422.3</td>
</tr>
<tr>
<td>Annual Adjustment</td>
<td>$479.8</td>
<td>$94.3</td>
</tr>
<tr>
<td>Interest</td>
<td>$0.6</td>
<td>$1.2</td>
</tr>
<tr>
<td>Total</td>
<td>$1,835.4</td>
<td>$1,517.8</td>
</tr>
</tbody>
</table>

## Orange County Estimated MHSA Funding

### Orange County MHSA Estimated Component Funding
(Millions of Dollars)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Actual</th>
<th>Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14/15</td>
<td>15/16</td>
</tr>
<tr>
<td>CSS</td>
<td>$105.5</td>
<td>$86.3</td>
</tr>
<tr>
<td>PEI</td>
<td>$28.1</td>
<td>$23.0</td>
</tr>
<tr>
<td>Innovation(^a)</td>
<td>$7.0</td>
<td>$5.8</td>
</tr>
<tr>
<td>Total</td>
<td>$140.6</td>
<td>$115.1</td>
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</tbody>
</table>

\(^a\) 5% of the total funding must be utilized for innovative programs (W&I Code Section 5892(a)(6)).
Orange County Estimated MHSA Funding

MHSA Component Funding

- Funding for No Place Like Home debt service is excluded from component funding
  - $60 million in FY19/20 to $130 million when fully implemented in FY22/23
- High income earners may be deferring income in anticipation of a federal tax cut in 2018
- FY16/17 through FY19/20 anticipated to be highest funding to date
  - Decrease in FY17/18 due to lower annual adjustment which may be understated
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 provide a plan for how reallocated funds will be spent
  • Reallocated funds must be spent by July 1, 2020
• State is to prepare report by July 1, 2018 identifying funds subject to reversion as of July 1, 2017
  • Counties have ability to appeal
Fiscal Transparency Tool

- MHS Oversight and Accountability Commission has been developing a Fiscal Transparency Tool to display county specific MHSA fiscal information
  - Based on MHSA Revenue and Expenditure (RER) data submitted by counties
  - RER data represents fiscal position at point in time and may change based on other revenue sources
  - Difficult to determine reverted funds without clear fiscal policies defining reversion

Other Community Mental Health Funding

- 1991 Realignment
  - Orange County has a minimum base of approximately $75 million in FY17/18
    - Includes VLF Collection
  - Discontinuance of the Coordinated Care Initiative (CCI) due to it not being cost effective impacts the County MOE for In-Home Supportive Services (IHSS)
    - Fund the shortfall with a combination of State General Fund monies and a redirection of 1991 Realignment vehicle license fee growth
    - All 1991 VLF growth redirected for three years (FY16/17-FY18/19)
    - 50 percent of VLF growth redirected for two years (FY19/20 and FY20/21)
    - Anticipate Social Services caseload cost growth to utilize all of sales tax growth into the foreseeable future
Other Community Mental Health Funding

• 1991 Realignment Transfers
  • Welfare and Institutions Code Section 17600.20 allows for the reallocation of funds among accounts in the local health and welfare trust fund
    • Limited to no more than 10% of the amount deposited in the account from which the funds are reallocated for that fiscal year
  • Requires public hearing
    • Must demonstrate reallocation was based on the most cost-effective use of available resources to maximize client outcomes

• 2011 Realignment
  • Revenues continue to grow
  • Budget includes State General Fund monies
    • Continuum of Care Reform
      • FY17/18 - $12.4 million
    • EPSDT Performance Outcome System
      • FY17/18 - $6.2 million
    • Managed Care Regulations Implementation
      • FY17/18 - $9.3 million
    • MHP Special Terms & Conditions
      • FY17/18 - $415,000
  • Increased State Share for ACA Medi-Cal Clients
    • FY17/18 - $43.4 million
Key Points

- Majority of funding driven by economic conditions and is not based on need for services
  - Need for services is often countercyclical to health of the economy
- There is a desire to integrate mental health and substance abuse services but funding remains independent
- Individual county allocations often determined through political process making it difficult for counties to budget
- Much of funding is categorical
- County MHPs under increasing fiscal pressure for various state initiatives and performance outcomes
- 1991 Realignment is the most flexible funding, followed by 2011 Behavioral Health Subaccount and MHSA
  - Each funding source is used for somewhat unique services and population groups
  - The funding sources increase at different rates which results in disparities among services and population groups