Orange County MHSA Steering Committee

MHSA Fiscal Update

September 17, 2018

Mike Geiss

MHSA Fiscal Update

• MHSA Revenue Update
• MHSA Reversion
• Recent MHSA Fiscal Changes
• 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:
  - FY18/19 May Budget Revision to the Governor’s Budget
  - Department of Health Care Services Information Notice 18-038
  - Department of Health Care Services Mental Health Services Act Expenditure Report (Governor’s May Revise, May 2018)
  - Legislative Analyst Office estimate of personal income tax revenues

MHSA Estimated Statewide Revenues

<table>
<thead>
<tr>
<th>MHSA Estimated Revenues</th>
<th>Fiscal Year</th>
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<tbody>
<tr>
<td>(Cash Basis-Millions of Dollars)</td>
<td>Actual</td>
</tr>
<tr>
<td>Cash Transfers</td>
<td>$1,484.1</td>
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<tr>
<td>Annual Adjustment</td>
<td>$464.1</td>
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<tr>
<td>Interest</td>
<td>$2.6</td>
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<tr>
<td>Total</td>
<td>$1,950.8</td>
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Orange County Estimated MHSA Funding

Orange County MHSA Estimated Component Funding
(Millions of Dollars)

| Fiscal Year | Actual | Estimated | | | |
|-------------|--------|-----------|--------|--------|--------|--------|--------|--------|
| 16/17       | $113.3 | $124.9    | $115.4 | $124.0 | $133.1 |
| 17/18       | $124.9 | $124.9    | $115.4 | $124.0 | $133.1 |
| 18/19       | $115.4 | $124.0    | $133.1 | $133.1 | $133.1 |
| 19/20       | $124.0 | $133.1    | $133.1 | $133.1 | $133.1 |
| 20/21       | $133.1 | $133.1    | $133.1 | $133.1 | $133.1 |

CSS
$113.3 $124.9 $115.4 $124.0 $133.1

PEI
$28.3 $31.2 $28.9 $31.0 $33.3

Innovation
$7.5 $8.2 $7.6 $8.2 $8.8

Total
$149.1 $164.3 $151.9 $163.2 $175.2

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 is excluded from component funding
  - $62 million in FY19/20 to $130 million when fully implemented in FY22/23
- 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 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
• 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
MHSA Reversion

• DHCS prepared a report identifying funds subject to reversion as of July 1, 2017
  • Pre-AB100 is through FY11/12
  • Post-AB100 begins in FY12/13

MHSA Funds Subject to Reversion as of July 1, 2017
(Dollars in Millions)

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<tr>
<th></th>
<th>CSS</th>
<th>PEI</th>
<th>INN</th>
<th>WET</th>
<th>CFTN</th>
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<td></td>
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<tr>
<td>Pre-AB100</td>
<td>2.9</td>
<td>70.7</td>
<td>123.8</td>
<td>9.3</td>
<td>25.7</td>
<td>232.4</td>
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<tr>
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<td>5.0</td>
<td>76.2</td>
<td>162.7</td>
<td>9.3</td>
<td>25.7</td>
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<tr>
<td>Pre-AB100</td>
<td>0.0</td>
<td>12.3</td>
<td>10.1</td>
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<td>12.3</td>
<td>13.4</td>
<td>0.0</td>
<td>3.2</td>
<td>28.9</td>
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Recent MHSA Fiscal Changes

• SB192 recently signed by the Governor
  • Limits local MHS Fund prudent reserve to not more than 33 percent of the average CSS revenue received in the prior five years
  • Creates Reversion Account within the State MHS Fund
  • Orange County’s prudent reserve is approximately twice the amount specified in SB192
    • SB192 does not specify consequences of exceeding 33 percent
Other Community Mental Health Funding

• 1991 Realignment
  • Orange County has a minimum base of approximately $75 million in FY17/19
    • 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 VFL 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

• 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 $49.5 million in FY17/18 base funding and $3.8 million in FY16/17 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
    • FY17/18 - $4.0 million
    • FY18/19 - $10.7 million
  • EPSDT Performance Outcome System
    • FY17/18 - $0.0 million
    • FY18/19 - $6.4 million
  • Managed Care Regulations Implementation
    • FY17/18 - $1.9 million
    • FY18/19 - $7.5 million

• Managed Care Regulations Mental Health Parity
  • FY17/18 - $0.0 million
  • FY18/19 - $2.9 million

• Increased State Share for ACA Medi-Cal Clients
  • FY17/18 - $29.5 million
  • FY18/19 - $52.5 million

• Homeless and Mental Illness Program
  • FY18/19 - $50 million

• Repayment of AB3632 Mandate
  • FY18/19 - $254 million (plus interest)
Key Points

• Significant State pressure on counties to spend MHSA funds
  • Counties trying to balance the needs of the community with the ability to sustain effective programs
• MHSA funding is becoming more categorical
  • Most reverted funds are for Innovative projects
• County MHPs under increasing fiscal pressure for various state initiatives and performance outcomes