

Orange County MHSA Steering Committee

MHSA Fiscal Update

September 21, 2020

Mike Geiss



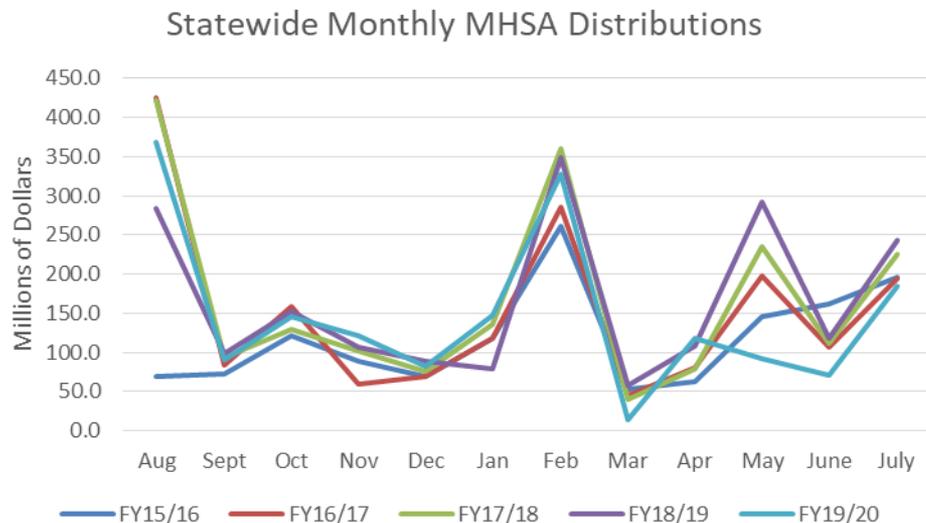
Mental Health Services Act

Revenues

- The MHSA created a 1% tax on income in excess of \$1 million to expand mental health services
- Approximately 76,000 tax returns reflected taxable income in excess of \$1 million in calendar year 2017
- 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 Revenues

- Cash Transfers include state withholding tax payments, estimated tax payments and year end tax payments
 - State withholding payments are generally more predictable and reflect economic conditions in the labor market
- Cash Transfers are largest in months following quarterly tax payments and year end tax payments



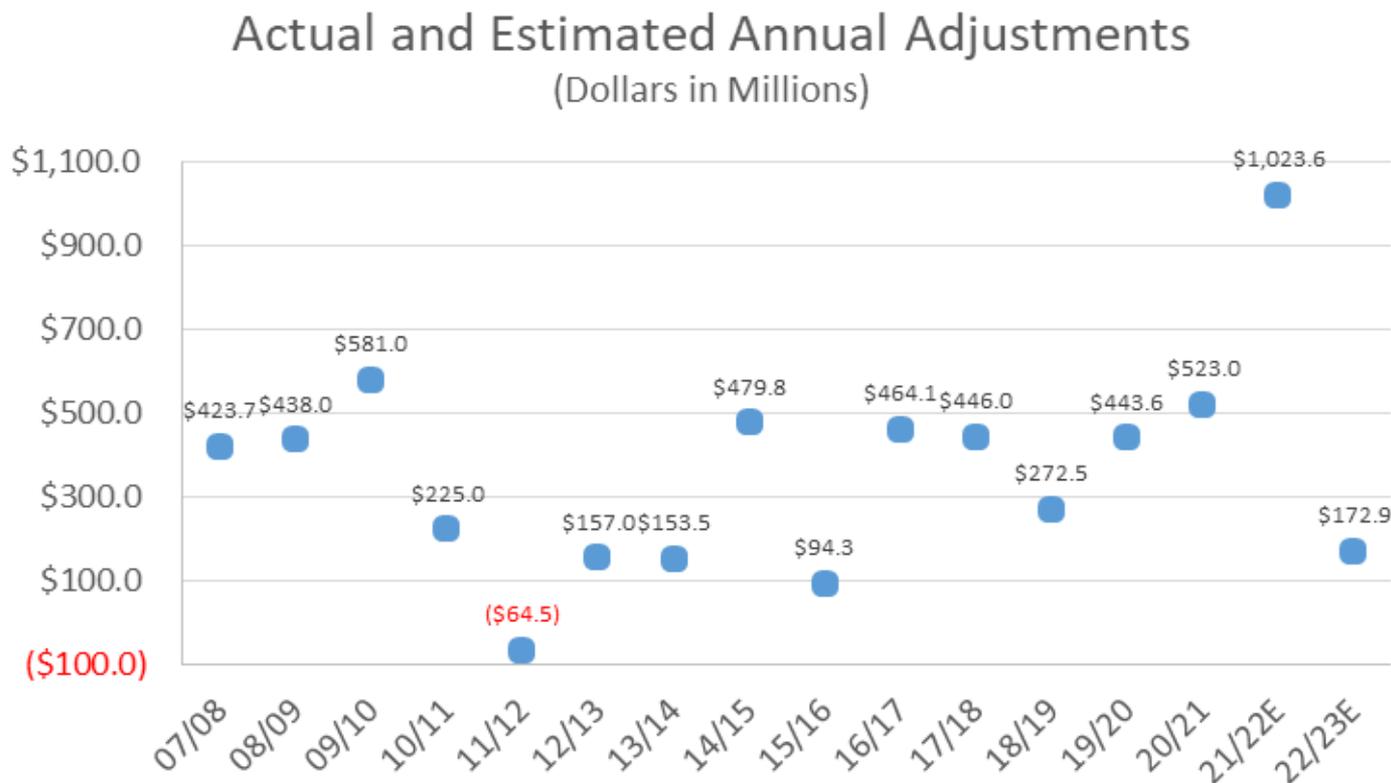
Mental Health Services Act

Revenues

- Annual Adjustments reflect the difference between the amount earned as determined through actual tax returns and the monthly cash transfers
 - Recent tax returns indicate approximately 33% of taxable income is from wages and salaries, 33% from capital gains, 20% from partnerships and S-corporations, and balance from dividends, interest, misc. other income
- Annual Adjustments are calculated based on calendar year tax returns adjusted to reflect fiscal year
 - Fiscal Year 20/21 Annual Adjustment
 - Based on Fiscal Year 18/19
 - Calculated from calendar year 2018 tax returns
 - Calendar year 2018 tax returns filed by October 15, 2019
 - FTB calculates amount earned by MHSA tax by beginning of March 2020
 - Deposited July 1, 2020

Mental Health Services Act Revenues

- Annual Adjustments are incredibly volatile from year to year



MHSA County Funding

- Individual county allocation percentages are based on:
 - Estimated need for services
 - Self-sufficiency and resources
 - Small county minimum allocations
 - Information Notice 20-038 describes methodology
- Counties receive one warrant (check) from the state
 - County responsible for ensuring compliance with C.C.R. Title 9, Section 3420(b)
 - 5% of total funding shall be utilized for Innovative programs
 - 19% for Prevention and Early Intervention programs
 - 76% for Community Services and Supports (System of Care)
- Each county required to have a local Mental Health Services fund in which interest earned remains in the fund

Impact of COVID-19 on MHSA Revenues

- Economic Impacts:
 - Estimate approximately 6% decrease in FY19/20 cash transfers due to lower revenues
 - Estimate additional 10% to 15% decrease in cash transfers in FY20/21 due to lower revenues
- Policy Impacts:
 - Estimate approximately \$260 million in deferred revenue from FY19/20 to FY20/21
 - Deadline extended for 2019 tax filing and 2020 first and second quarter estimated tax payments until July 15, 2020

Impact of COVID-19 on MHSA Revenues

- Estimate significantly lower annual adjustment (\$172.9 million) in FY22/23 due to capital gains from calendar year 2020
 - State estimated \$511.4 million annual adjustment prior to COVID-19 crisis
- State is estimating the Annual Adjustment that will post in FY21/22 to be over \$1 billion
 - State estimated \$572.8 million annual adjustment prior to COVID-19 crisis
 - Almost double the largest historical Annual Adjustment

MHSA Statewide Estimated Revenues

(Cash Basis-Millions of Dollars)

	Fiscal Year				
	Estimated				
	18/19	19/20	20/21	21/22	22/23
Cash Transfers	\$1,824.0	\$1,452.1	\$1,749.70	\$1,489.7	\$1,578.9
Annual Adjustment	\$272.5	\$443.6	\$523.0	\$750.0	\$172.9
Interest	\$8.8	\$10.7	\$10.7	\$10.0	\$7.0
Total	\$2,105.3	\$1,906.4	\$2,283.4	\$2,249.7	\$1,758.8

MHSA Component Funding

- Funds distributed to counties are considered component funding
 - Excludes funds expended and reserved
 - Orange County's FY 20/21 allocation percentage is 8.10812%
- Funding for No Place Like Home debt service is excluded from component funding
 - \$53.7 million in FY19/20
 - \$92.4 million in FY20/21
 - \$114.0 million in FY21/22
 - \$130.0 million in FY22/23
 - Up to \$140 million
- Estimated component funding does not include redistributed funds based on reversion

Orange County
MHSA Estimated Component Funding
(Millions of Dollars)

	Fiscal Year				
	Actual	Estimated			
	18/19	19/20	20/21	21/22	22/23
CSS	\$121.80	\$108.50	\$128.90	\$125.03	\$95.35
PEI	\$30.45	\$27.13	\$32.22	\$31.26	\$23.84
Innovation	\$8.01	\$7.14	\$8.48	\$8.23	\$6.27
Total	\$160.26	\$142.77	\$169.60	\$164.52	\$125.46

MHSA Component Funding

- Anticipate large fluctuations in funding
 - Expect large annual adjustments in FY20/21 and FY21/22 due to capital gains spike in 2018 and 2019
 - Expect lower annual adjustment in FY22/23 due to COVID-19 impact on 2020 economy
- Recognize these are estimates and could vary significantly from actual revenues
 - Consider flexibilities allowed under AB81
 - Use of prudent reserve in FY20/21
 - Reversion extension through 6/30/2021

Other Community Mental Health Funding

- 1991 Realignment
 - Orange County had a base of approximately \$75 million in FY18/19
 - Orange County has not received any growth for three fiscal years
 - No growth in mental health for FY16/17 through FY18/19
 - Decrease of \$7.64 million in FY19/20 due to economic and policy implications of COVID-19
 - New base of \$67.34 million in FY20/21 and subsequent years
 - Don't anticipate any growth until FY23/24

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's base was approximately \$55.7 million in FY19/20
 - Actual FY19/20 revenue was \$54.9 million but anticipate FY20/21 to be significantly less (\$45.6 million)

Other Community Mental Health Funding

- State Budget included Realignment Backfill
 - Anticipated losses in both 1991 and 2011 Realignment programs
 - Impacts all realignment funded services: public safety, social services, public health, and behavioral health
 - Joint request with CSAC and affiliates for \$1 billion for all 1991 and 2011 Realignment programs
 - \$750 million State General Fund distribution
 - \$8.25 million for Orange County Behavioral Health
 - Requires counties to adhere to governor's COVID-19 orders
 - \$250 million contingent on availability of federal funds
 - \$2.75 million for Orange County Behavioral Health
 - Part of larger federal stimulus request that, if not enacted, triggers cuts by October 15, 2020

Community Mental Health Funding

- FY19/20 funding was lower than anticipated due to economic and policy implications related to COVID-19
 - Orange County Behavioral Health received approximately \$30 million less in MHSA than anticipated and \$8.5 million less than the original base for two realignment funding sources
- Anticipate increase in overall FY20/21 revenues
 - MHSA projected to increase over FY19/20 but less than anticipated a year ago
 - Anticipate larger decreases in two realignment programs that will be partially offset by State General Fund Realignment Backfill
- High level of uncertainty around revenues
 - COVID-19 impact on economy
 - November elections