# Mental Health Services Act Fiscal Overview

Orange County
Behavioral Health Advisory Board

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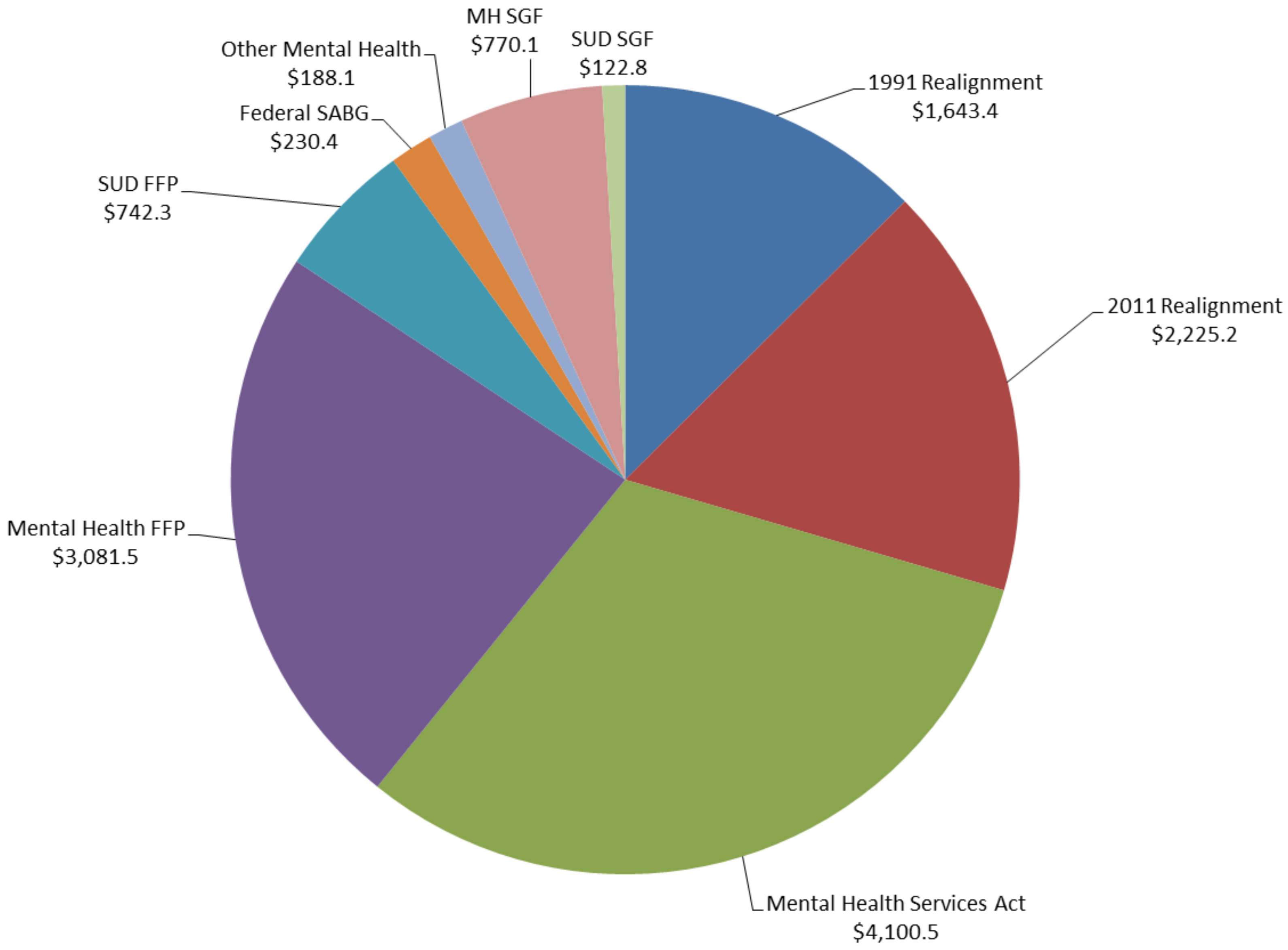
# FY23-24 Estimated Statewide Behavioral Health Funding

**$13.1 Billion**

**(Cash Basis-Dollars in Millions)**



# 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

# Deposits into State MHS Fund


- 1.76% of all monthly personal income tax (PIT) payments (Cash Transfers)
- Annual Adjustment based on actual tax returns
  - Incredibly volatile
- Settlement between monthly PIT payments and actual tax returns

# 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

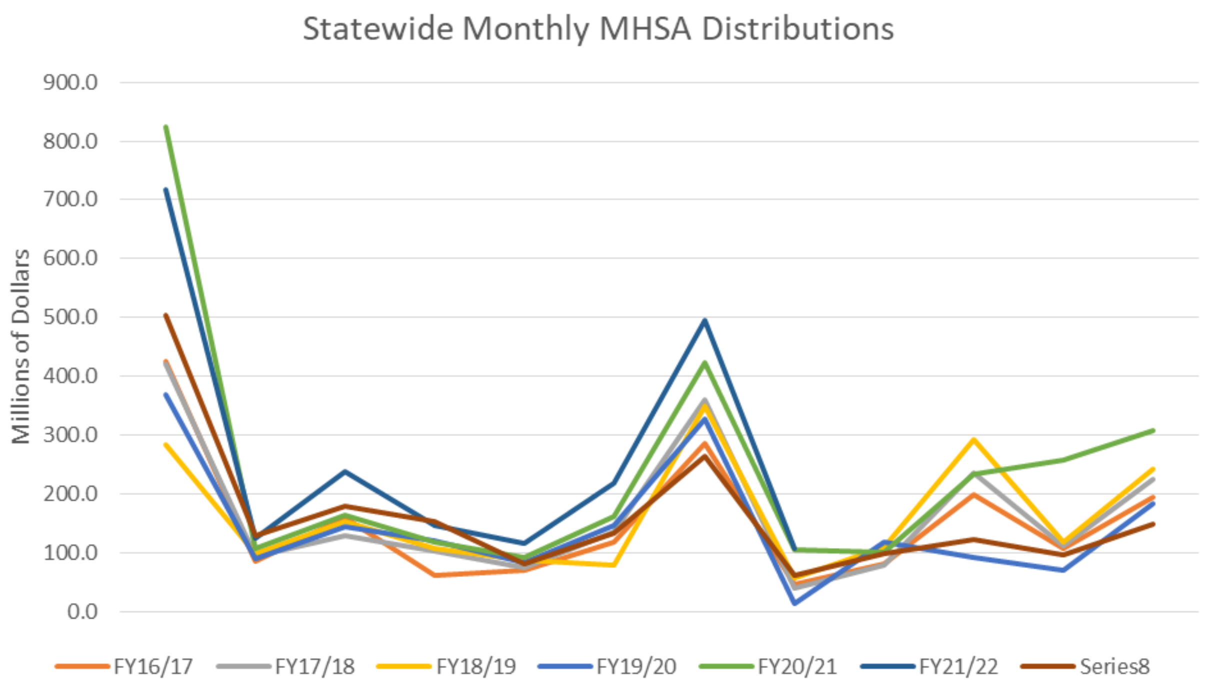
Annual Adjustments are calculated based on calendar year tax returns adjusted to reflect fiscal year

Fiscal Year 23/24 Annual Adjustment

- Based on Fiscal Year 21/22
- Calculated from calendar year 2021 tax returns
  - Calendar year 2021 tax returns filed by October 15, 2022
- FTB calculates amount earned by MHSA tax by beginning of March 2023
- Deposited July 1, 2023

# Mental Health Services Act Revenues

- Cash Transfers include state withholding tax payments, estimated tax payments and year end tax payments
- Cash Transfers are largest in months following quarterly tax payments and year end tax payments
- The tax filing and payment deadline for calendar year 2022 taxes as well as first, second and third quarter 2023 estimated taxes has been extended until October 16, 2023 for individuals impacted by the winter storms
  - Estimate approximately $400 million of MHSA revenue that would have been received in FY22/23 will be received in FY23/24



# MHSA Statewide Estimated Revenues

## (Cash Basis-Millions of Dollars)

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | Estimated | | | | |
| | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 |
| Cash Transfers | $2,627.1 | $1,813.8 | $2,513.6 | $2,121.8 | $2,274.6 |
| Annual Adjustment | $789.0 | $530.6 | $2,366.9 | $1,478.1 | $111.9 |
| Interest | $2.1 | $12.4 | $12.4 | $9.0 | $6.0 |
| Total | $3,418.2 | $2,356.8 | $4,892.9 | $3,608.9 | $2,392.5 |

# MHSA County Funding

In accordance with Welfare & Institutions Code Section 5892, Mental Health Services Fund revenues are dedicated to specific components

- Workforce, Education and Training (WET)
- Capital Facilities/Technological Needs (CFTN)
- Prevention and Early Intervention (PEI)
- Community Services and Supports (CSS)
- Innovation (INN)

Prior to making the distribution to counties, up to 5% is made available for State Administration

Balance of funds (95%) distributed based on the fiscal year in which the deposits are posted to the State MHS Fund on a cash basis

# MHSA County Funding

**Funds distributed on a monthly basis (W&I Code Section 5892(j)(5))**

- Unexpended and unreserved funds on deposit in the State MHS Fund at the end of the month are distributed by the 15th of the next month
- State reserves entire administrative appropriation at the beginning of the fiscal year

**Individual county allocation percentages are based on:**

- Estimated need for services
- Self-sufficiency and resources
- Small county minimum allocations
- Information Notice 22-052 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**

- Interest earned remains in the fund to be used for MHSA expenditures

# MHSA County Funding

Beginning in FY 08-09, counties *may* annually dedicated up to 20% of the average of their 5-year total of MHSA funds to the Prudent Reserve, CFTN, or WET programs/projects

Counties may use up to 5% of their total annual MHSA revenues for planning and supporting consumers, family members, stakeholder and contractors in local planning processes

# MHSA Component Funding

Funds distributed to counties are considered component funding

- Excludes funds expended and reserved

Funding for No Place Like Home debt service is excluded from component funding

- $140.0 million per year

Anticipate large fluctuations in funding

- Large annual adjustment in FY23-24 due to capital gains spike in 2021 followed by lower annual adjustments due to decline in economy

Estimated component funding does not include redistributed funds based on reversion

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

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | Actual | Estimated | | | |
| | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 |
| CSS | $188.1 | $121.7 | $253.1 | $203.4 | $132.1 |
| PEI | $47.0 | $30.4 | $63.3 | $50.9 | $33.0 |
| Innovation | $12.4 | $8.0 | $16.7 | $13.4 | $8.7 |
| Total | $247.5 | $160.2 | $333.0 | $267.7 | $173.8 |

# MHSA County Expenditures

1. Counties are required to prepare a Three Year Program and Expenditure Plan
2. Gain approval of Plan through annual stakeholder process
3. All MHSA expenditures are required to be in accordance with an approved Plan
4. MHSA funds cannot be used to supplant existing resources
5. Counties required to prepare and submit MHSA Annual Revenue and Expenditure Reports

# MHSA County Expenditures

MHSA funds can only be used to pay for services and programs for which there is no other source of funding

Majority of CSS funds must be directed to Full Service Partnerships (FSPs)

51% of PEI funds must be used to serve individuals who are 25 years old or younger

# MHSA Non-Supplant

Welfare and Institutions Code Section 5891(a) specifies that MHSA funds cannot be used to supplant existing resources

California Code of Regulations Section 3410 specifies that MHSA funds cannot be used to supplant funds required to be used for services and/or supports that were in existence in FY2004-05

DMH Policy Letter 05-08 identifies the aggregate funding amount for each county that must be spent in order to comply with the non-supplant policy

# MHSA Prudent Reserve

## 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))
- 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))
- DHCS finalized MHSA Financial Regulations that clarify the standards that must be met to use reserves

## PRUDENT RESERVE LIMITS

- Prudent reserve is limited to 33% of the average CSS revenue received in the preceding five years (W&I Code Section 5892(b)(2))
- Counties can transfer up to 20% of the average amount of total funds allocated to the county in the preceding five years from CSS to WET, CFTN and/or the Prudent Reserve (W&I Code Section 5892(b)(1))
- Counties are required to reassess the prudent reserve every five years (W&I Code Section 5892(b)(2))
- Counties are required to fund the prudent reserve at a minimum level of 5% of the average CSS revenue received in the preceding five years (California Code of Regulations Section 3420.30(b))

# MHSA Prudent Reserve

**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

# MHSA Reversion

## REVERSION

- MHSA Funds must be spent within a certain timeframe or returned to the state
- CSS and PEI must be spent within three years
- INN must be encumbered in an approved project within three years and spent within the life of the project
- WET and CFTN must be spent within 10 years
- Funds dedicated to Prudent Reserve are exempt from reversion
- Counties with a population of less than 200,000 have five years to expend funds (CSS and PEI) or encumber INN funds into an approved project

# MHSA-Key Points

Income taxes on very few high income earners fund MHSA irrespective of the demand or need for services

- Revenues are volatile

Amount of county funding is not guaranteed

- More risk to counties

Cash flow varies significantly during the fiscal year

- 40% of MHSA cash transfers received in last three months of fiscal year

MHSA provides tools to manage funding

- Local prudent reserve
- Three year reversion period for unspent CSS, PEI and Innovation funds

All expenditures must be consistent with an approved MHSA Plan

Funds must be spent within specified time frame

# Recent Behavioral Health Fiscal Initiatives- CalAIM Behavioral Health Payment Reform

Implement CPT coding transition for applicable services/providers

Adopt prospective, fee-for-service rates and payments for behavioral health services

Change county mechanism for providing the non-federal share of Medi-Cal payments to an Intergovenmental Transfer (IGT)

# Recent Behavioral Health Fiscal Initiatives- Proposed Transformation of Behavioral Health Services

## $4.7 billion general obligation bond

- Fund community behavioral health beds in unlocked residential settings
- Fund permanent supportive housing

## Modernization of the MHSA (SB 326)

- Incorporate Substance Use Disorder services
- State continues to receive 5% for administration
- Creates state-level workforce education and training funding of 3%
- Change county funding components beginning in FY26/27
  - 30% for Housing Interventions
  - 35% for FSPs
  - 30% for Behavioral Health Services and Supports (BHSS)
    - Majority of BHSS funds must be spent on Early Intervention
  - 5% for Population-Based Prevention
- Reduces allowable prudent reserve amounts to 15% for large counties and 20% for small counties
- Creates Integrated Plan for Behavioral Health Services and Outcomes

## Improve statewide accountability, transparency, and access to behavioral health services

- Create County Behavioral Health Outcomes, Accountability, and Transparency Report
- Align Behavioral Health Plan and Managed Care Plan contract requirements