

# Overview of Mental Health Services Act Funding: Collection to Expenditure

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# What We'll Cover

## ■ Funds at the State Level

- “Millionaire’s tax” generates an uneven funding stream.
- How does cash accumulate in the Fund?
- When are deposits made and what’s their effect on the Fund balance?
- Why is the Annual Adjustment important?

## ■ Funds at the County Level

- How does the deposit cycle affect the distribution of funds?
- Why do we use a “cash balance” approach?
- How are funds accessed by Counties?
- How are funds distributed to Counties?

## ■ Why there are cash balances in the MHSA Fund?

## ■ Selected Policy Issues

# How is MHTSA Funded?

- The MHTSA imposed an additional tax for each taxable year beginning January 1, 2005
- The new tax was imposed at the rate of “1% on that portion of a taxpayer’s taxable income in excess of one million dollars” (MHTSA, Section 17043)
- Represents between 20,000 to 30,000 returns (1/10 of 1% of total), and highly sensitive to fluctuations in the economy, specifically capital gains.

# How Does Cash accumulate in the MHSA Fund?

- Three primary sources of deposits to the MHSA Fund:
  - Cash Transfers – 1.76% of all monthly Personal Income Tax payments (not just millionaires)
  - Annual Adjustment – Settlement between monthly Cash Transfers & actual tax returns of millionaires
  - Interest Income – posted quarterly

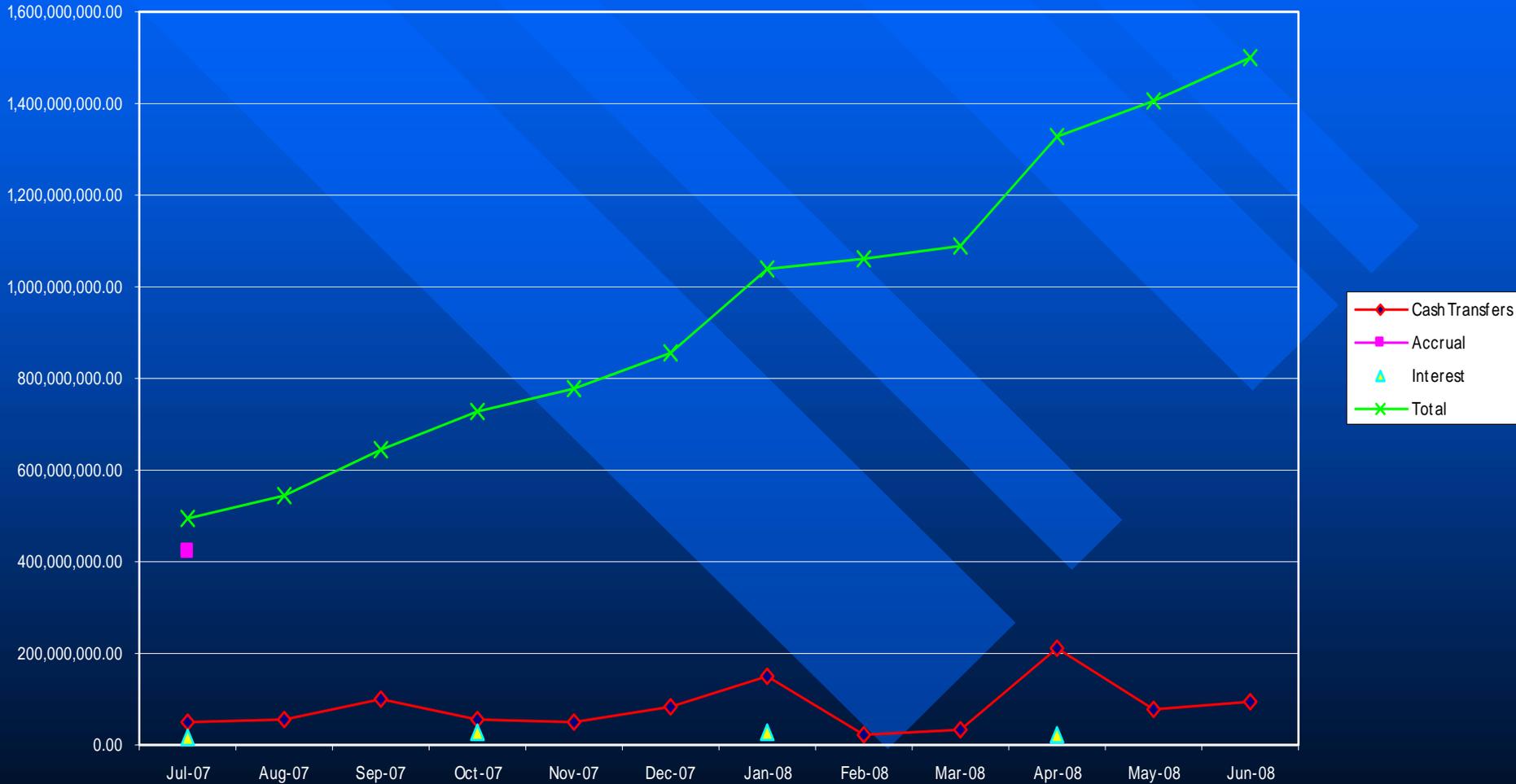
# When are Deposits Made to the MHSA Fund?

	Jan			Apr			July			Oct			Jan
<b>Deposits into Fund</b>													
Cash Transfers (monthly)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Interest (quarterly)	\$			\$			\$			\$			\$
Annual Adjustment (annually)							\$						

# How Do Deposits Affect the Overall MHSA Fund Balance?

- MHSA Fund Balance “lumpy” throughout the year
- Causes:
  - Monthly cash transfer amounts vary
  - Any overage or underage handled with an annual adjustment (difference between monthly Cash Transfers and actual revenue from tax)
  - Interest paid when money deposited to MHSA account.

# Timing of MHSA Fund Deposits (Example: SFY 2007-08)



# Why is the Annual Adjustment Important?

- Recently has been 1/3 of all MHSA annual funds.
- Calculated on tax returns from two years prior
- Deposited 18 months following end of the tax year when earned.
- Can vary significantly from year to year, depending on economy

# Effect of the Annual Adjustment

(Accrual to Cash Comparison)

Source: Governor's Budget

Estimated Revenues- Accrual Basis (Millions)	Fiscal Year		
	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Cash Transfers	\$983.0	\$831.0	\$837.0
Annual Adjustment	\$529.0	\$150.0	\$50.0
Interest Income	<u>\$96.4</u>	<u>\$60.8</u>	<u>\$27.4</u>
<b>Estimated Revenue</b>	<b>\$1,608.4</b>	<b>\$1041.8</b>	<b>\$914.4</b>

Estimated Revenues-Cash Basis (Millions)	Fiscal Year		
	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Cash Transfers	\$983.9	\$831.0	\$837.0
Annual Adjustment	\$423.7	\$438.4	\$529.0
Interest Income	<u>\$94.4</u>	<u>\$60.8</u>	<u>\$27.4</u>
<b>Estimated Revenue</b>	<b>\$1502.0</b>	<b>\$1330.2</b>	<b>\$1393.4</b>

# How Does the MHSA Deposit Cycle Affect the Distribution of Funds?

- Counties need to rely on a steady stream of funding to ensure program continuity
- Because of the variables associated with the MHSA Deposits, funding for local MHSA Programs reflect revenue on a cash basis
  - Based on “funds deposited” not “revenue estimates”

# Why do we use a “Cash Basis” Approach?

- Based on funds “deposited” in order to be available for immediate distribution
- Allows counties to rely on level of funding known in advance
- Allows for program continuity over time

# How Are Funds Accessed by Counties?

- Counties are notified of available cash through Planning Estimates
  - Crucial document - Represents the amount of MHSA funds available to a county to provide MHSA services.
  - Fund amounts in Estimates are considered “committed” to counties.
- Generally based on all cash deposits projected to be on hand on 7/1 of the planning year.
  - For example, revenues collected in FY 2008-09 will fund Planning Estimates in FY 2009-10.

# How are Funds Distributed to Counties?

- Generally counties receive 75% of cash requested when Plans Are Approved.
  - Exception is that 100% of Community Planning funds are released when approved.
- The remaining 25% of approved cash is released upon receipt of required fiscal reports.

# Issue: Money in the Bank

- MHSA has “generated more than \$4.1 billion in additional revenues ...through the end of Fiscal Year (FY) 2007-2008” ...[but] “[j]ust under \$2 billion has been distributed through the end of FY 2007-08.” (DMH, MHSA Expenditure Report, 1/09)

# Why will there always be a Balance in the MHSA Fund?

## ■ Primary Reasons

- Cash accumulates so that counties can receive their funds whenever they request them
- Revenue accrues to the Fund throughout the year.

# Other Reasons for Cash on Hand

- Policy Decisions to Advance Services Over Infrastructure, Technology and Training.
- Money May Be “Committed” But Not Yet Distributed.
- Delays in Planning Process and DMH/MHSOAC Review. (Finance, MHSA Performance Audit, 6/08)
- 2-Year Cycle for Annual Adjustments

# Issue: Estimated Revenues Are Declining (Millions)

Source: CMHDA Consultant's Report (1/15/09)

	Fiscal Year					
	2007-08 <sup>a/</sup>	2008-09 <sup>a/</sup>	2009-10 <sup>a/</sup>	2010-11	2011-12	2012-13
<b>Estimated Revenues-Cash Basis</b>						
Cash Transfers	\$983.9	\$831.0	\$837.0	\$866.0	\$903.0	\$957.0
Annual Adjustment	\$423.7	\$438.4	\$529.0	\$150.0	\$50.0	\$100.0
Interest Income	\$94.4	\$60.8	\$27.4	\$25.0	\$25.0	\$25.0
<b>Estimated Revenues</b>	<b>\$1,502.0</b>	<b>\$1,330.2</b>	<b>\$1,393.4</b>	<b>\$1,041.0</b>	<b>\$978.0</b>	<b>\$1,082.0</b>

<sup>a/</sup> Source: Department of Mental Health, *Mental Health Services Act Expenditure Report, Fiscal Year 2008-09, January 2009*

# Assumptions

Source: CMHDA Consultant's Report (1/15/09)

## ■ Assumptions

- Cash Transfers based on Department of Finance estimate through FY 2009-10 (January 2009)
- Cash Transfers after FY 2009-10 will change based on Legislative Analyst's Office estimates of change in PITs (November 2008)
  - » Relatively slow growth
- Department of Finance estimate of Annual Adjustment through FY 2011-12 (January 2009)
- Capital Gains will be a significantly smaller portion of PITs in future based on LAO estimates (November 2008)
- Interest Income unchanged from FY 2009-10 due to lower fund balance and lower interest rates

# Challenge of Supplantation

- “[F]unding...shall be utilized to expand mental health services...[and]..shall not be used to supplant existing state or county funds to provide mental health services.” (MHSA, sec. 15.)
- “The FY 2009-10 Governor’s Budget proposes to achieve \$226.7 million in General Fund savings...based on amending the non-supplantation requirement.” (DMH, 1/09)

# Issue: “Prudent Reserve”

- WIC Section 5847(a)(7) requires each county to establish and maintain, at the local level, a “Prudent Reserve” for the Community Services and Supports component.
- The Prudent Reserve has been set by DMH at a level of 50% of the most recent annual approved CSS funding level.
- DMH Guidelines call for each county to fully fund the prudent reserve by July 1, 2010, unless the county would have to reduce MHSA services below those funded in FY 2007-08.

# Policy Issues: “Prudent Reserve”

- Timing? What Impact on Programs?
- Too Much or Too Little?
- Who Can Release Reserves?

# Issue: 2-Tiered System/System Flexibility

- Need for Clarification of Policies in Order to Avoid Two-Tiered System.
  - NAMI Survey reports this is a major problem.
- Detailed Planning Criteria May Deny Counties Flexibility Needed to Meet Local Priorities.

# Conclusion

- “Millionaire’s tax” a variable source of \$’s
- Funding in current year based on current year revenues + lagging annual adjustment.
- Cash balances built into system.
- Major policy issues:
  - Revenues projected to decline
  - Supplantation
  - Prudent Reserve
  - 2-Tier System/System Flexibility