

Behavioral Health Services Act Revenue Stability Workgroup

July 25, 2024

Meeting Logistics

Use the **raise hand** feature to unmute and contribute during the meeting.

Remain on **mute** when you are not speaking to minimize distractions.



You may also use the **chat feature** to ask questions which will be monitored and captured in the notes.

Notes will be shared with participants after the session.



Introductions

**The information included in this presentation may be pre-decisional, draft, and subject to change.*

Agenda

- » Revenue Stability Workgroup Overview
- » BHSA Revenue Background
- » Potential Strategies to Address Revenue Stabilization
- » Ideas for Consideration
- » Public Comment

About the BHSA Revenue Stability Workgroup



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Behavioral Health Transformation Overview

At a high-level, Behavioral Health Transformation (BHT) resulted from a two-bill package to modernize the state's behavioral health care system which was passed on March 5th.

Key elements of each bill include:

Behavioral Health Services Act (SB 326)

- » **Reforming behavioral health care funding** to provide services to those with the most serious illness & to treat substance use disorders.
- » Expanding services to **promote prevention, early intervention, and treatment** for California's diverse population.
- » Focusing on **outcomes**, accountability, and equity.

Behavioral Health Infrastructure Bond Act (AB 531)

- » **Funding behavioral health treatment beds**, supportive housing, and community sites.
- » Directing funding for **housing for veterans** with behavioral health needs.
- » Allocating a \$6.4 billion bond **to expand treatment facilities and housing** for vulnerable populations.

BHSA Revenue Stability Workgroup

The BHSA Revenue Stability Workgroup is a forum to assess year-over-year fluctuations in tax revenues generated by BHSA in recognition of the need for a reliable strategy for short- and long-term fiscal stability

Logistics:

- Forum duration: **TBD – Summer, 2x monthly**
- Meeting duration: **2 hrs.**
- Location: **Virtual**



Outcome

Develop and submit a report to the Legislature and Governor with recommendations on or before June 30, 2025

Stakeholder Selection

- Participant groups/organizations were outlined in statute
- Representative nominated by their organization

Stakeholder Expectations

- **Attendance:** Participate in all meetings and provide prior notice if unable to attend
- **Preparation:** Familiarize yourself with readaheads before meetings
- **Slide Deck:** Will be utilized for multiple meetings; depending on length of discussion

Statutory Requirements

- » **Purpose:**
 - Welfare and Institutions Code section 5892.3 establishes the BHSA Revenue Stability Workgroup.
 - Assess year-over-year fluctuations in tax revenues generated by the BHSA
 - Recommend solutions to reduce BHSA revenue volatility to the legislature and governor
 - Propose appropriate prudent reserve levels.
- » **Conveners:** The workgroup is jointly convened by the CalHHS and DHCS
- » **Composition:** The workgroup is comprised of representatives from:
 - Behavioral Health Services Oversight and Accountability Commission
 - Legislative Analyst's Office
 - County Behavioral Health Director's Association of California
 - California State Association of Counties (rural and urban representatives)
 - *As needed: California Department of Finance to provide technical assistance*
- » **Stabilizing the funding was a 'top priority' from counties during the development of SB 326.**

Behavioral Health Services Act Revenue Background



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Behavioral Health Services Act Revenue

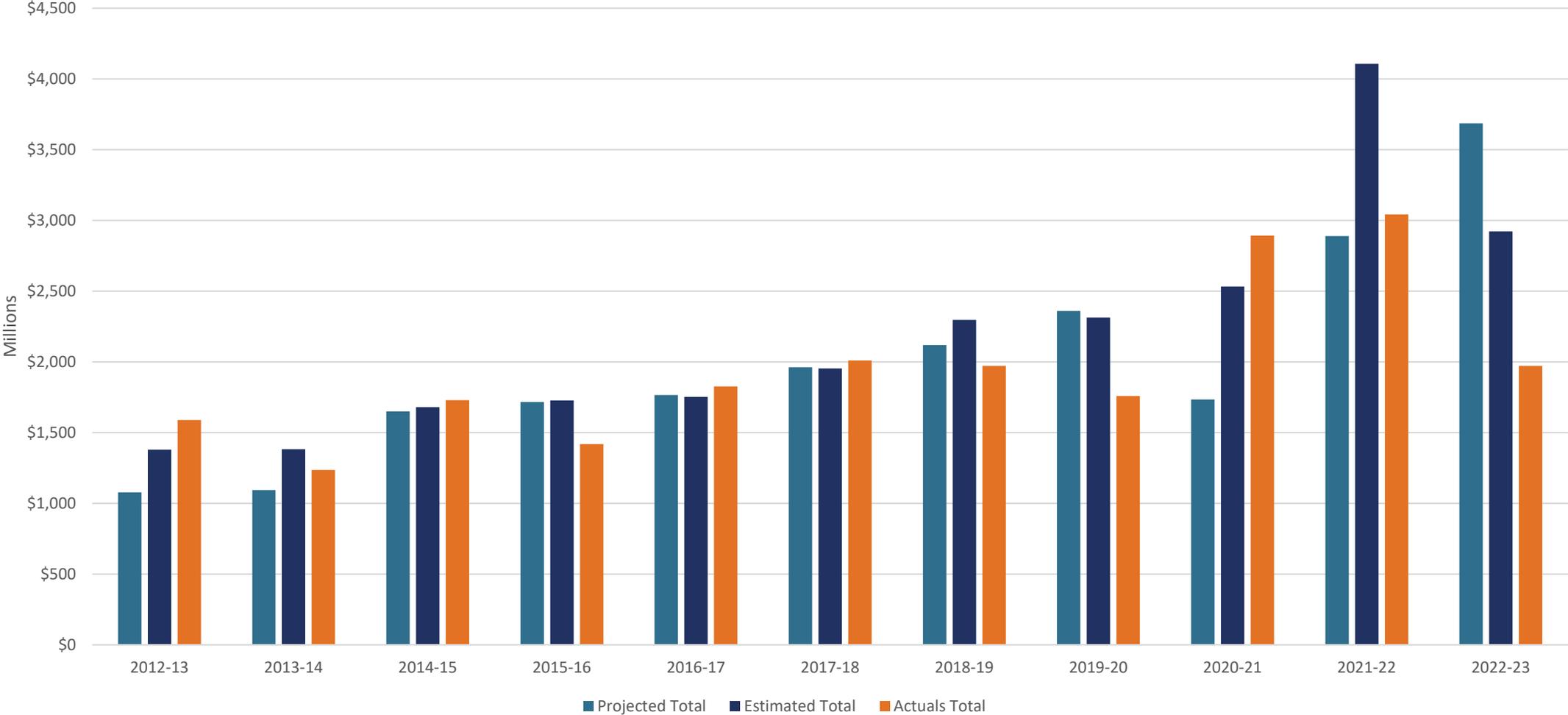
- » Behavioral Health Services (BHS) Act is funded by a tax on personal income in excess of \$1 million.
- » Two primary sources of deposits into State BHS Fund:
 - **Cash Transfers:** 1.76% of all monthly personal income tax payments; and
 - **Annual adjustment** based on actual tax returns: Settlement between monthly distribution and actual tax returns. The accrual takes two years to actualize.
- » Other deposits:
 - Interest income collected on the BHSA Fund (posted quarterly);
 - Excess State Administration (unauthorized and unexpended); and
 - Reverted funds.

BHSA Revenue (Cont'd)

- » Cash Transfers are largest in months with quarterly tax payments and year-end tax payments:
 - January, April, June and September
- » Annual Adjustments are not consistent:
 - Two-year lag
 - Known by March 15th
 - Deposited on July 1st counties receive in August.

MHSA Revenue: Projections vs Estimated vs Actual

(Source: MHSA Expenditure Reports and State Controller's Website)



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Revenue Estimates: Lessons Learned from MHSA

- » Very difficult to estimate the MHSA revenue.
- » Changes to income tax reporting deadlines impact revenue available for distribution to counties.
 - As an example, during COVID-19, tax reporting deadlines were extended which pushed tax receipts forward into the next fiscal year.

Potential Strategies to Address Revenue Stabilization

Current Proposals

Proposal 1: Fixed Allocation (3-year Weighted Average), State Level Reserve

- Establish a fixed BHSA allocation amount, updated every 3 years
- Establish a state-level reserve used to stabilize local revenue in down years
- Reserve funded with BHSF revenue in excess of the fixed allocation amount

Proposal 2: Fixed Allocation (5-year avg), State Level Reserve

- Establish a fixed BHSA allocation amount.
- Create a Stabilization Account to stabilize revenues in down years
- Reserve funded with BHSF revenue in excess of the fixed allocation amount

Proposal 3: Fixed Spending Level, Local Prudent Reserve

- Establish a base BHSA Funding level
- Counties develop BHSA plans according to a base funding level for ongoing programs.
- If actual revenue is 10%+ more than the base funding level, counties would be able to utilize additional funds towards programs and services
- Counties utilize discretionary reserves they've created in down years (no state-required reserve).

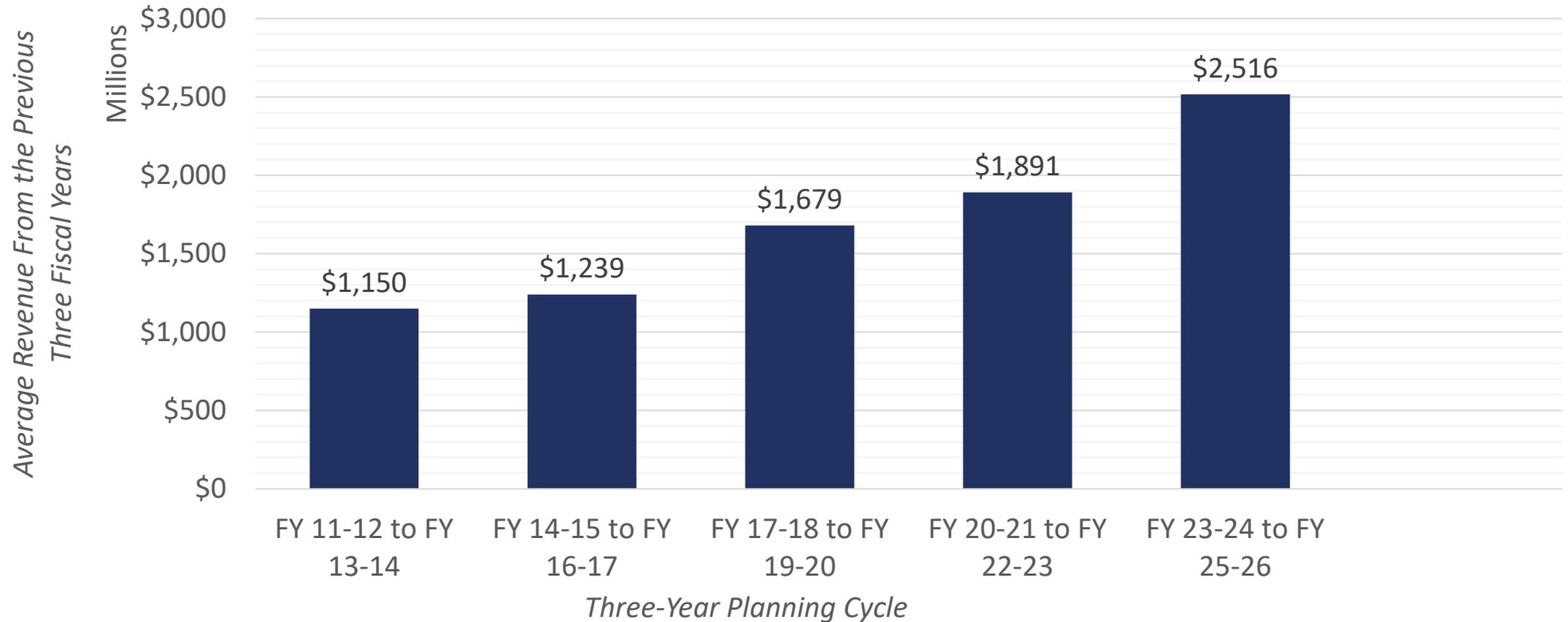
Proposal 1: Fixed Allocation (3-year Weighted Average), State Level Reserve Overview

- » **Establish a fixed BHSA allocation amount for a three-year cycle.** The fixed allocation amount will be based on a **trailing three-year weighted average** of recent BHSA revenues.
- » **Establish a Revenue Stabilization Account** to ensure the county will receive the fixed allocation amount in years when the BHSA revenues are down.
- » The Revenue Stabilization Account will be funded in years when BHSA revenue is greater than the fixed allocation amount.
- » The Revenue Stabilization Account will be **capped at \$2 billion (approximately 75% revenue)**, and the funds will be protected. If the fund exceeds the \$2 billion cap, the excess funds will be allocated to counties over the next three-year period.

Proposal 1: Determining the Fixed BHSA Allocation Amount

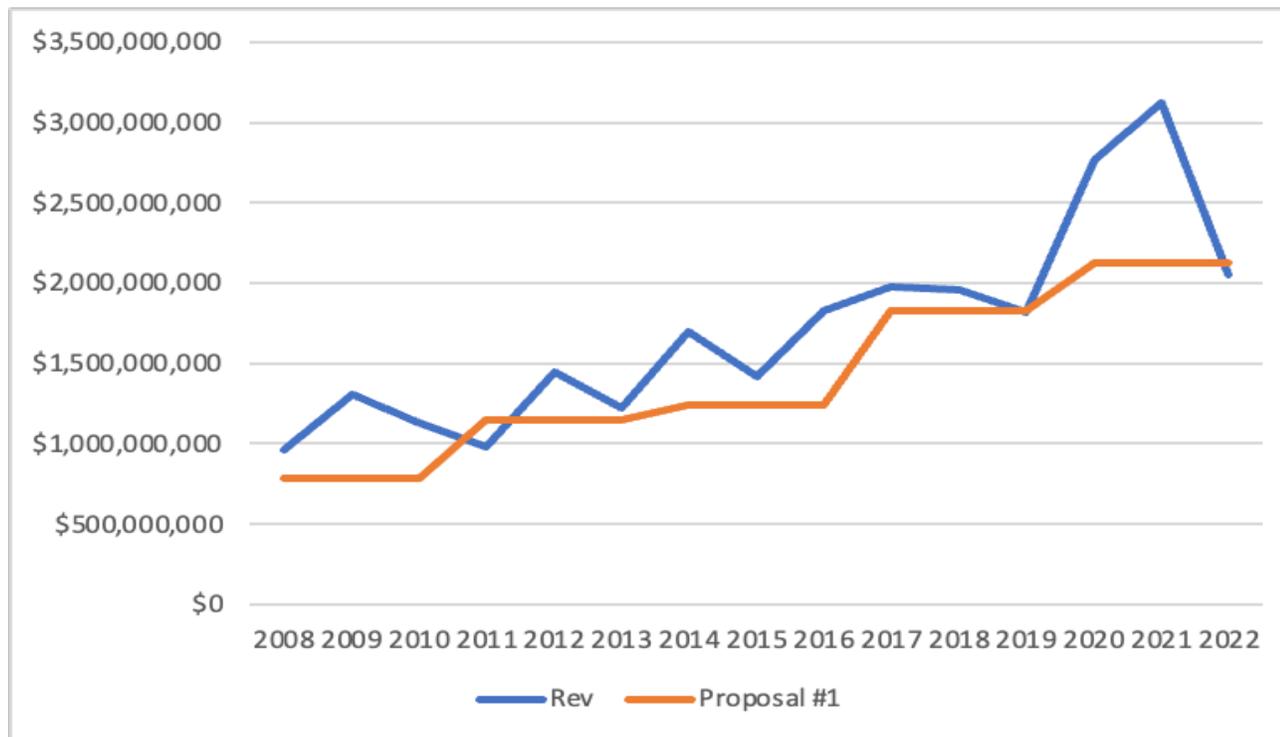
- » The fixed allocation amount is calculated using a weighted average of BHSA revenues from the previous three fiscal years, with more weight on the most recent years. The fixed BHSA allocation amount would be updated every three years.
- » Proposal 1 recommends the weighted percentages as follows:
 1. Determine the total BHSA revenues from **FY 2020-21** and multiply by a weighted percentage of **20%**.
 2. Determine the total BHSA revenues from **FY 2021-22** and multiply by a weighted percentage of **30%**.
 3. Determine the total BHSA revenues from **FY 2022-23** and multiply by a weighted percentage of **50%**.
 4. Add the amounts from steps 1, 2 and 3 to determine the fixed BHSA allocation amount.
 5. The BHSA amount determined in step 5 would be the basis for a fixed amount to be allocated to counties over **FY 2023-24, FY 2024-25, and FY 2025-26**

Proposal 1: 3-Year Weighted Average



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Proposal 1: Impact on Revenue Stability



Volatility Reduction and Ending Reserve Level	
Std Deviation of annual growth - unadjusted revenues	28.0%
Std Deviation of annual growth	17.9%
Reduction in volatility	-35.8%
Reserve at end of 2025-26 (\$ Billions)	\$1.57

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Questions: Proposal 1

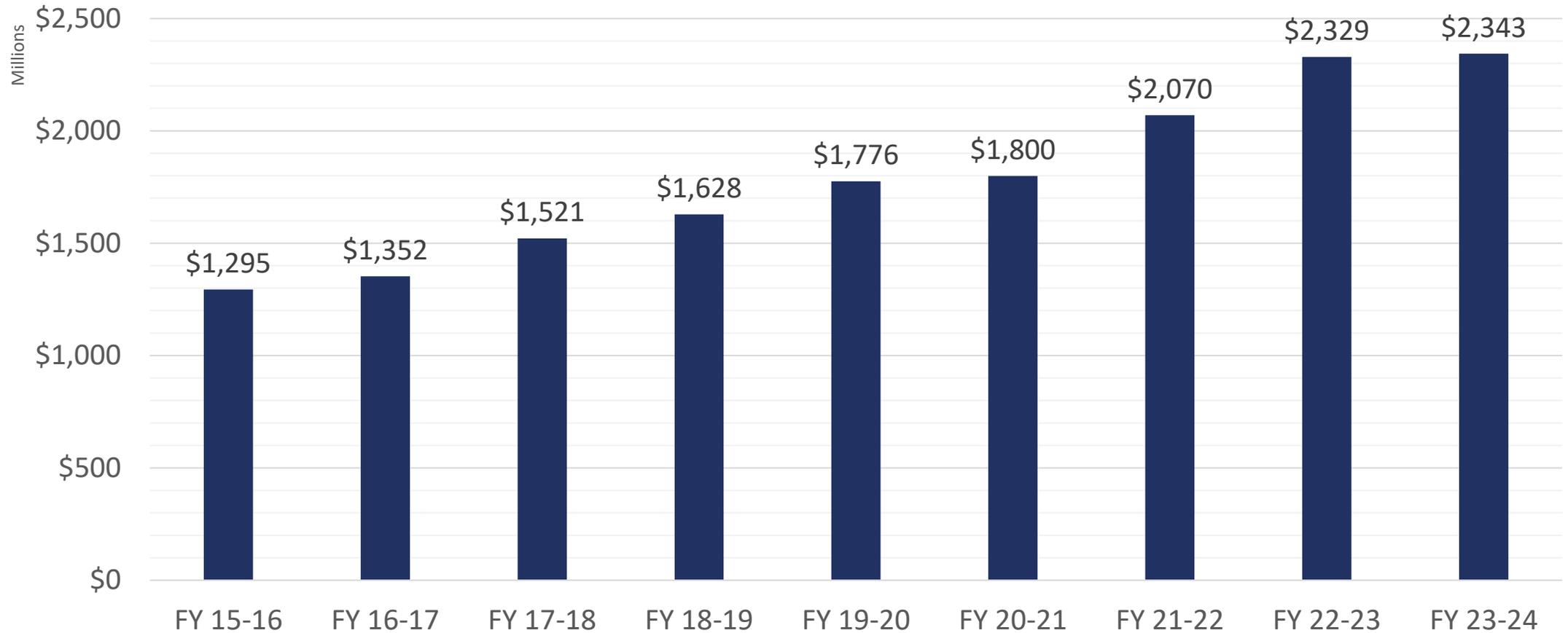
Proposal 2: Fixed Allocation (5-year average), State Level Reserve Overview

- » **Establish a fixed BHSA allocation amount.** The state will take the average revenue of the five previous fiscal years that's been deposited into the Behavioral Health Services Fund (BHSF) to determine the fixed BHSA allocation amount.
- » **Create a Revenue Stabilization Account:** The state will create a revenue stabilization account within the Behavioral Health Services Fund (BHSF). The county's excess revenues will be used to fund the BHSA. The state will only generate excess revenue if the estimated/adjusted revenue for the following fiscal year is 10% greater than the trailing 5-year average revenue. Transfers out only occur when Adjusted Revenue of the next fiscal year is less than 95% of the trailing 5-year moving average.
- » **Funding the Revenue Stabilization Account:** Controller would allocate 1/12th of the excess revenue each month to fund the Revenue Stabilization Account.

Proposal 2: Determining the Allocation Amount

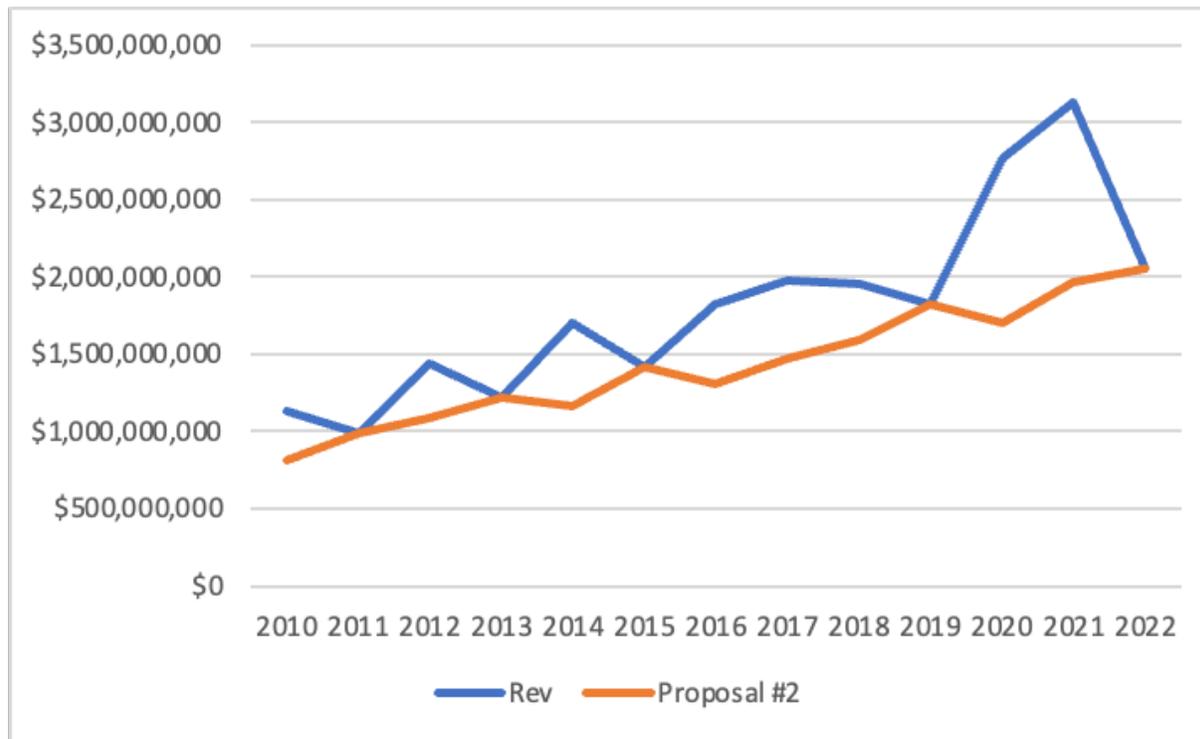
- » Revenue Calculations (made by the Department of Finance (DOF))
- » **Average revenue:** Determine the average revenue amount that's been deposited into the county's BHSF for the **five previous fiscal years**. This should include any adjustments made and subtract any funds transferred out.
- » The five-year average is as follows:
 1. Determine the total BHSA revenues from the last five year, for example, **FY 2018-19 through FY 2022-23**, and sum.
 2. Divide the amount by 5 to get the average.
 3. The average in step #2 will be considered for the base payment amount for payments made in **FY 2024-25**.

Proposal 2: Five-Year Average



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Proposal 2: Impact on Revenue Stability



Volatility Reduction and Ending Reserve Level	
Std Deviation of annual growth - unadjusted revenues	28.0%
Std Deviation of annual growth	10.0%
Reduction	-64.2%
Reserve at end of 2025-26 (\$ Billions)	\$4.58

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Questions: Proposal 2

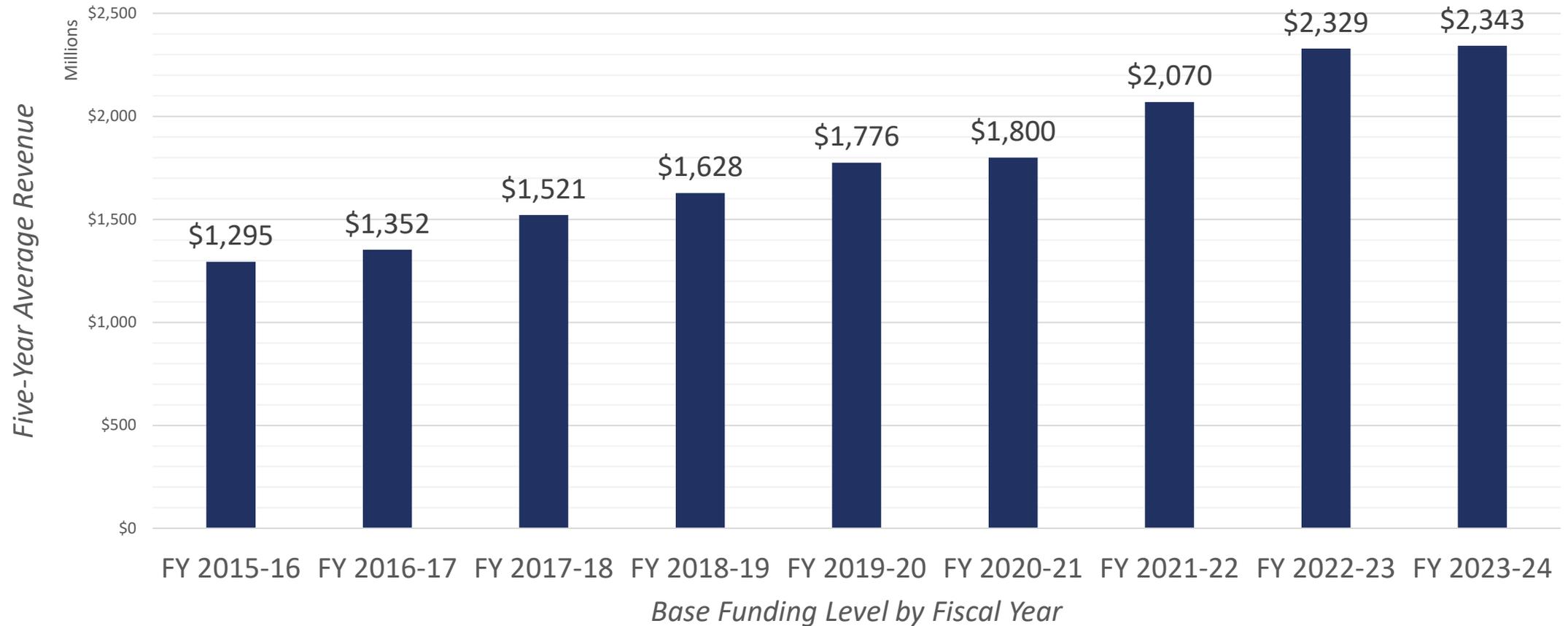
Proposal 3: Fixed Spending Level, Local Prudent Reserve Overview

- » **BHSA Base Funding Level Calculation:** Annually, the state would calculate a five-year trailing average to determine the “BHSA Base Funding Level” that each county is projected to spend, at a minimum, each fiscal year. Counties would continue to receive the current BHSF monthly allocation each year.
- » **County Accountability:** Counties would be held accountable for spending BHSA funds at the BHSA Base Funding Level in accordance with their local plan.
- » **Actual Revenue Increases/Decreases:** If actual revenue is 10% or greater than the Base Funding Level, counties have broad discretion to utilize the funds to further meet local needs. Counties would be able to utilize additional funds towards programs and services. If actual revenue is lower than projections, counties access local prudent reserve.

Proposal 3: Determining the Allocation Amount

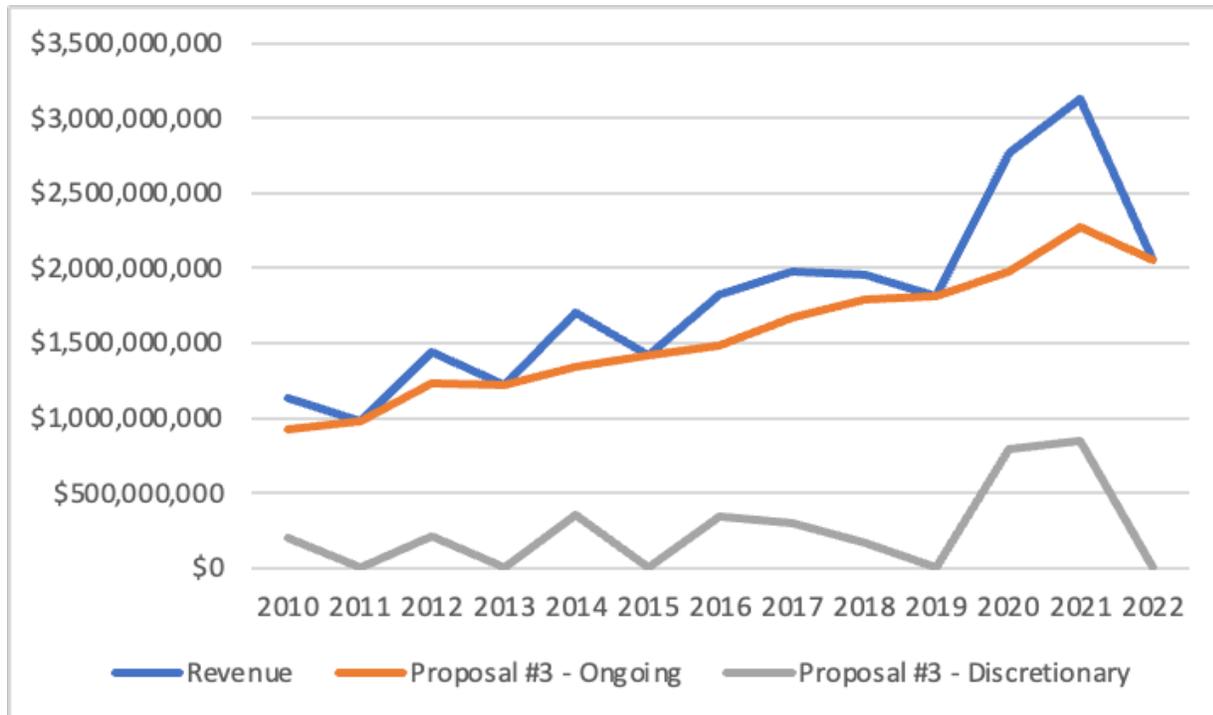
- » The state would calculate a five-year trailing average to set the amount of funding counties are projected to spend across the upcoming three-year planning cycle which would be called the “BHSA Base Funding Level.”
- » The five-year average is as follows:
 1. Determine the total BHSA revenues from the last five year, for example, **FY 2018-19 through FY 2022-23**, and sum.
 2. Divide the amount by 5 to get the average.
 3. The average in step #3 will be considered the minimum amount counties would be expected to spend for the next three years. Counties will update the base funding level in the Annual Update to account for changes to the funding level.

Proposal 3: Five-Year Average



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Proposal 3: Impact on Revenue Stability



Volatility Reduction and Ending State Reserve Level	
Std Deviation of annual growth - unadjusted revenues	28.0%
Std Deviation of annual growth in base funding	8.6%
Reduction (base funding only)	-69.3%
Reserve at end of 2025-26 (\$ Billions)	\$0.0

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Questions: Proposal 3

Proposals Example

- All three proposals include a reserve for excess revenue to be withdrawn from; due to the actual revenue not meeting the baseline budget.
- In this example, funds would be withdrawn from the Reserve in Year 1 and Year 2 to cover the decline in revenue. This is based off the budget baseline and actual BHSA revenue.
- In Year 3, the revenue is higher than the budget (baseline) amount. The excess revenue would be deposited into the reserve (or distributed to counties, per Proposal 3).

Proposal:				
Budget		BHSA Revenue	Reserve	
			Beginning Reserve Balance	\$5
Year 1	Budget \$10	\$8	Year 1 Withdraw from Reserve	-\$2
Year 2	Budget \$10	\$9	Year 2 Withdraw from Reserve	-\$1
Year 3	Budget \$10	\$11	Year 3 Deposit to Reserve	\$1
	Total \$30	Total \$28	Ending Reserve Balance	\$3

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Ideas for Consideration

1. Establishing a Base Funding Level

Calculation Methodology

- » Calculated using an **average**
 - Very simple to calculate.
 - Outliers or extreme revenue fluctuations may significantly affect the calculation.

- » Calculated using a **weighted** average
 - Weights can be assigned to each fiscal year allowing for a more tailored approach.
 - Example:
 - Year 1 – weighted 20% (oldest data)
 - Year 2 – weighted 30%
 - Year 3 – weighted 50% (most current data)

Calculation Methodology

- » Determine number of years of historical data to include in the calculation.
 - Three years of data
 - Five years of data

Workgroup Discussion

1. Are there any thoughts on the calculation methodology?
2. Is there a preference to use an average vs a weighted average when calculating the base allocation level?
3. For the weighted average, are there suggestions on how the weighting should apply?

2. Establishing the Length of Time for Each Base Funding Cycle

Funding Cycle – Length of Time

- » Annual funding cycle
- » Three-year funding cycle
- » Five-year funding cycle

Workgroup Discussion

1. Does the workgroup have feedback about how long the funding cycle should be?

3. Establishing a State Revenue Stabilization Account

Establishing a Revenue Stabilization Account

- » Proposals 1 and 2 recommended establishing a state level reserve that would be used to supplement local revenue during economic downturns.
- » Proposal 3 does not include a state reserve and leaves decisions about local reserves to the discretion of each county.

Funding the Revenue Stabilization Account

- » Excess BHSA revenue would fund the Revenue Stabilization Account
 - Base funding level is set; if actual revenue is **greater** than the base allocation, the additional funds are transferred into the Account
 - Base funding level is set; if actual revenue is **10%+ greater** than the base allocation, the additional funds are transferred into the Account
- » To help build the reserve more quickly, it may be necessary to establish a lower base funding level for the first 1-5 years.

Establishing a Cap for the Revenue Stabilization Account

- » Establish a reserve cap. Recommend using a percentage rather than a dollar amount to allow for economic changes over time.
- » Monitor the state level reserve cap and make adjustments as needed based on historical revenue data

Workgroup Discussion

1. Are there questions about establishing a revenue stabilization account?
2. Is there a need to allow for some level of revenue fluctuation from year-to-year before deeming funds as Excess and transferring them into the Revenue Stabilization Account?
3. What is an appropriate cap?

4. Transfers from the Revenue Stabilization Account

Transfers from the Revenue Stabilization Account – Decreased Revenue

- » Funds will be transferred from the Revenue Stabilization Account **when revenues in the next fiscal year is lower** than the trailing 3-year weighted average of revenues.
- » Funds will be transferred from the Revenue Stabilization Account **when revenue in the next fiscal year is less than 95%** of the trailing 5-year average of revenues.

Transfers from the Revenue Stabilization Account – Funding Over the Cap

- » If the State Reserve Account **exceeds the maximum funding cap**, excess funds would be withdrawn and allocated to counties.
 - Allocated to counties **during the next funding cycle**.
 - Allocated **as soon as possible** to counties for use in accordance with their local Integrated Plan.

Workgroup Discussion

1. Does the workgroup have ideas or questions about accessing the Revenue Stabilization Account due to economic downturns?
2. Should counties be responsible for managing a certain level of revenue fluctuation before the Account is accessed?
3. If the cap is reached, when should the funds be released to the counties?

5. Local Prudent Reserve Requirements

Options for Local Prudent Reserve

- » Determine the need for a local prudent reserve if a state-level reserve is created.
 - Re-evaluate maximum prudent reserve levels.
- » Require counties to fund a local prudent reserve to a specific **minimum** and **maximum** level.

Determine Funding Levels

- » **Determine an appropriate maximum/minimum funding level.**
 - » **Large counties** prudent reserve must not exceed **20%** of the county's average total distribution for the previous five years.
 - » **Small counties** prudent reserve must not exceed **25%** of the county's average total distribution for the previous five years.
- » Counties are required to **reassess** the prudent reserve **every three years.**

Workgroup Discussion

1. Based on the workgroup discussions to date, how does the workgroup see the local prudent reserve being impacted?
2. Do the current maximum prudent reserve levels make sense? Are the levels adequate and will they support the intent of the local prudent reserve?

Public Comment



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