REVENUE STABILITY WORKGROUP PROPOSAL OVERVIEW

October 31, 2024

Overview:

This proposal is designed to create a more stable and predictable revenue stream for counties under the Behavioral Health Services Act (BHSA). The goal is to balance revenue allocation and program stability, allowing counties to effectively plan and provide critical behavioral health services during revenue downturns and help assist with the transition from the Mental Health Services Act (MHSA) to Behavioral Health Services Act (BHSA).

The proposal would establish a baseline for revenues to provide counties with greater stability to plan for program expenditures and implement Behavioral Health Services Act (BHSA) funded services. The revenue baseline will be based on historical revenue data and will be updated annually. The goal is to provide more stability by smoothing out the fluctuations that occur in annual BHSA revenue. Counties would be required to use the baseline revenue to build their Integrated Plan (IP) and spend at least the baseline revenue each fiscal year. To help ensure that the maximum Behavioral Health Services Act (BHSA) funding is available and being used for services, this proposal includes a recommendation to lower the maximum level of prudent reserves that counties could maintain and allows for increased flexibility for counties to access local prudent reserves during years of economic downturns.

Proposal Outline:

1. **Base Funding Levels**
   Recommendation: Establish base funding levels using **historical revenue data** rather than expenditure data.
   Rationale: Revenue data is more readily available and provides a more stable, and accurate reflection of available funds for counties.

2. **Funding Levels**

Recommendation: Implement a **weighted 3-year trailing average (60%, 25%, and 15%),** giving the highest weight to the **most recent year revenue** available (two years prior) for calculating county base funding levels. The result from this trailing average calculation will then **be increased by an annual inflationary adjustment of 4% per year** to cover the two-year time lag between the most recent year for which actual revenue totals are available and the budget year. This results in an overall inflationary adjustment of 8%. This will provide the **Year 1 base funding level**. DHCS will then use the **Home Health Agency Market Based Index** **to calculate an inflationary adjustment** to project the base expenditure levels for the **second and third year** of the IP cycle.
Rationale: The weighted trailing average method will allocate more unrestricted funds to counties sooner by responding quickly to more recent trends in revenue, while also providing stability by factoring previous years to smooth out the volatility. The Home Health Agency Market Basket Index is currently used in the methodology to adjust rates for Medi-Cal services.

3. **Annual Funding Updates**
   Recommendation**: Update base funding levels annually** to reflect growth in revenues and program demands that occur over time.
   Rationale: DHCS will provide counties with updated base funding levels annually, and the base funding level will account for the most recent historical revenue. This will provide more consistency year-to-year for counties. Counties will also be able to update their IP through the annual updates so they can adjust their programs expenditures and local needs quickly.

4. **Threshold for Plan updates**
   Recommendation: **Require IP updates (including updated budget worksheet)** for revenue changes of ± **10% from one year to the next**.
   Rationale: A 10% threshold provides counties flexibility while ensuring necessary reviews and adjustments to their plan to ensure their budgets remain closely aligned to their revenue. Per statute, counties are required to complete an Annual Update.

5. **Prudent Reserve Account:**
   Recommendation: Counties should continue to maintain **local Prudent Reserve** accounts.

Rationale: Local Reserves are more accessible to counties and provide more flexibility to meet their needs

6. **Prudent Reserve Adjustments**
   Recommendation: **Lower the maximum level of funds** that counties can maintain in their local prudent reserve to **10%**. **Do not require** counties to maintain **a minimum level** of prudent reserves.
   Rationale: Many counties have significant untapped prudent reserves and unspent fund balances. Lowering the maximum prudent reserve allows counties to access the excess funds and support the transition to BHSA services. No minimum reserves will allow counties to direct more spending towards BHSA programs and services.

7. **Excess Prudent Reserve Funds and Prudent Reserve Usage**
   Recommendation: Allow counties to **exclude *excess* prudent reserve funds** from funding **allocation percentages.** Provide counties with the **flexibility to determine which component the local prudent reserve funds are allocated towards,** should a county need to access their local prudent reserve. Counties will be **required to report** on how prudent reserve funds are used to support the BHSA programs and services **in the IP and the Behavioral Health Outcomes, Accountability, and Transparency Report (BHOATR).**
   Rationale: Excess prudent reserve funding can fill service gaps during the transition to BHSA; in years where there is a revenue downturn, counties can access their local prudent reserve, and unspent funds, to help ensure stability. Reporting requirements will ensure greater transparency regarding use of reserve funds and alignment with BHSA goals.