REVENUE STABILITY WORKGROUP AT-A-GLANCE

The Revenue Stability Workgroup is charged with assessing year-over-year fluctuations in tax revenues generated by the Behavioral Health Services Act (BHSA) and develop a reliable strategy for short- and long-term fiscal stability. A report of the workgroup's recommendations will be submitted to the Legislature and Governor by June 30, 2025.

The workgroup is required by statute to:

1. Develop and recommend solutions to **reduce BHSA revenue volatility**
2. Propose appropriate prudent reserve levels to **support the sustainability of county programs and services**. [1]

The goal of the workgroup is to build a proposal to reduce revenue volatility and support the sustainability of BHSA programs. The workgroup will evaluate key aspects of the submitted proposals in Figure 1 below, and recommend a proposal that considers the following elements:

1. Base Funding Level;
2. Length of Funding Cycle;
3. Establishing a State Revenue Stabilization Account;
4. Revenue Stabilization Account Transfers; and
5. Local Prudent Reserve Requirements

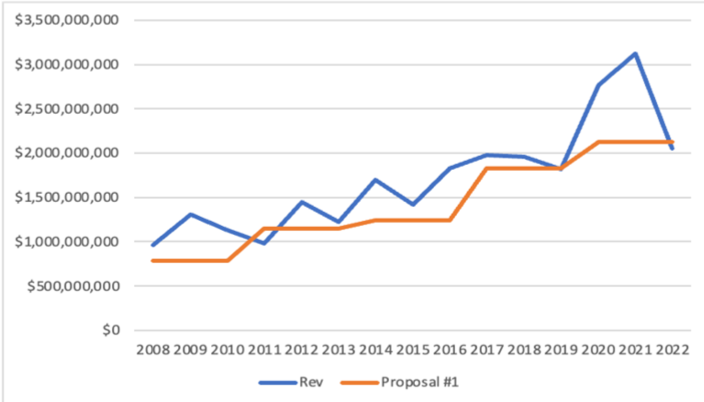
[1] WIC § 5892.3

Figure 1. Overview of Submitted Proposals

Proposal Overview	Reduces Volatility	Supports Sustainability
Proposal 1: *Trailing 3-year weighted average* » Establishes fixed BHSA allocation amount updated every 3 years. State level reserve funded with BHSF revenue in excess of allocation amount and capped at $2 billion. » Weighting is based on previous three fiscal years, with more weight on the most recent years. » If the reserve balance exceeds the cap, the excess funds will be allocated to counites over the next three-year period. » The state is still able to access and distribute reserve funds in down years even if the $2B cap is not met.	Yes, significantly reduces revenue volatility.	Yes. Proposal results in relatively rapid increase in reserve funds. Once $2 billion cap is exceeded, funds distributed to counties over three years.
Proposal 2: *Trailing 5-year weighted average* » State level stabilization account created to stabilize revenues in down years. Transfers to the account occur when the estimated revenue for the following fiscal year is 10% or more greater than the trailing five-year revenue average. » Counties can tap the reserve when revenues are 5% or more below the trailing five-year average. » SCO allocates 1/12th of monthly revenue excess to fund the Revenue Stability Account. » Reserve cap is set at 3X trailing five-year spending average, which is very high. Could safely lower cap and distribute excess balances to counties.	Yes, more volatility reduction than Proposal #1 due to longer trailing average period.	Yes, though longer trailing average period and high reserve cap raise potential for program funding persistently lagging behind annual revenues.

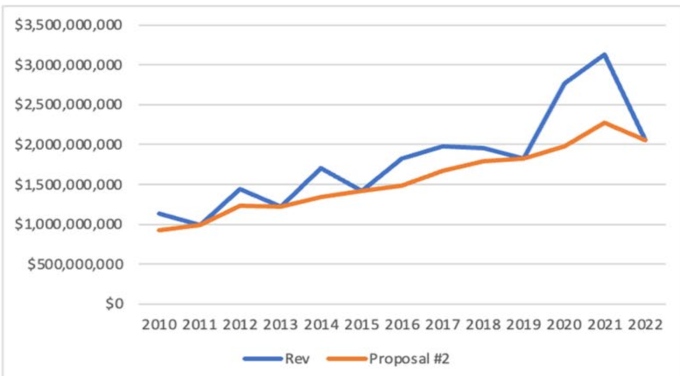
Proposal Overview	Reduces Volatility	Supports Sustainability
Proposal 3: ***Trailing 5-year average for base funding*** » Local reserve. » Base funding level based on a five-year trailing average. Plans developed according to base funding level. » Counties have broad discretion to use funds to meet local needs when revenue is 10% or higher than the base level. » Counties utilize discretionary reserves in down years.	Large reduction in base funding volatility only. No reduction in overall revenue volatility.	Depends on how counties manage revenues received above base funding levels.

Figure 2. Proposal 1: Impact on Revenue Stability



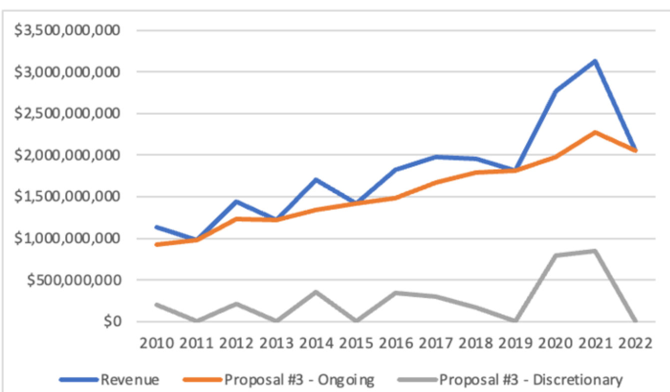
Volatility Reduction and Ending Reserve Level	
Std Deviation of annual growth - unadjusted revenues	28.0%
Std Deviation of annual growth	17.9%
Reduction in volatility	**-35.8%**
Reserve at end of 2025-26 ($ Billions)	**$1.57**

Figure 3. 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 - CSAC	8.6%
Reduction	**-69.3%**
Reserve at end of 2025-26 ($ Billions)	**$2.99**

Figure 4. 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**