

Behavioral Health Services Act Revenue Stability Workgroup

August 27, 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 Meeting #1 Recap
- » Meeting Goals
- » Ideas for Consideration
- » Public Comment

Recap from Revenue Stability Workgroup Meeting #1

- » DHCS provided an overview of the goals of this workgroup, which are:
 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.**
- » Walked through three proposals for revenue stability. The proposals were intended to be a jumping off point for the development of a new proposal.

Goals for Revenue Stability Workgroup Meeting #2

The workgroup will move forward to **build a proposal** to reduce revenue volatility and support sustainability of BHSA programs and services. A report of the workgroup's recommendations will be submitted to the Legislature and Governor no later than June 30, 2025.

Today, the workgroup will continue to discuss the following key proposal elements to develop a recommendation:

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

Ideas for Consideration



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

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



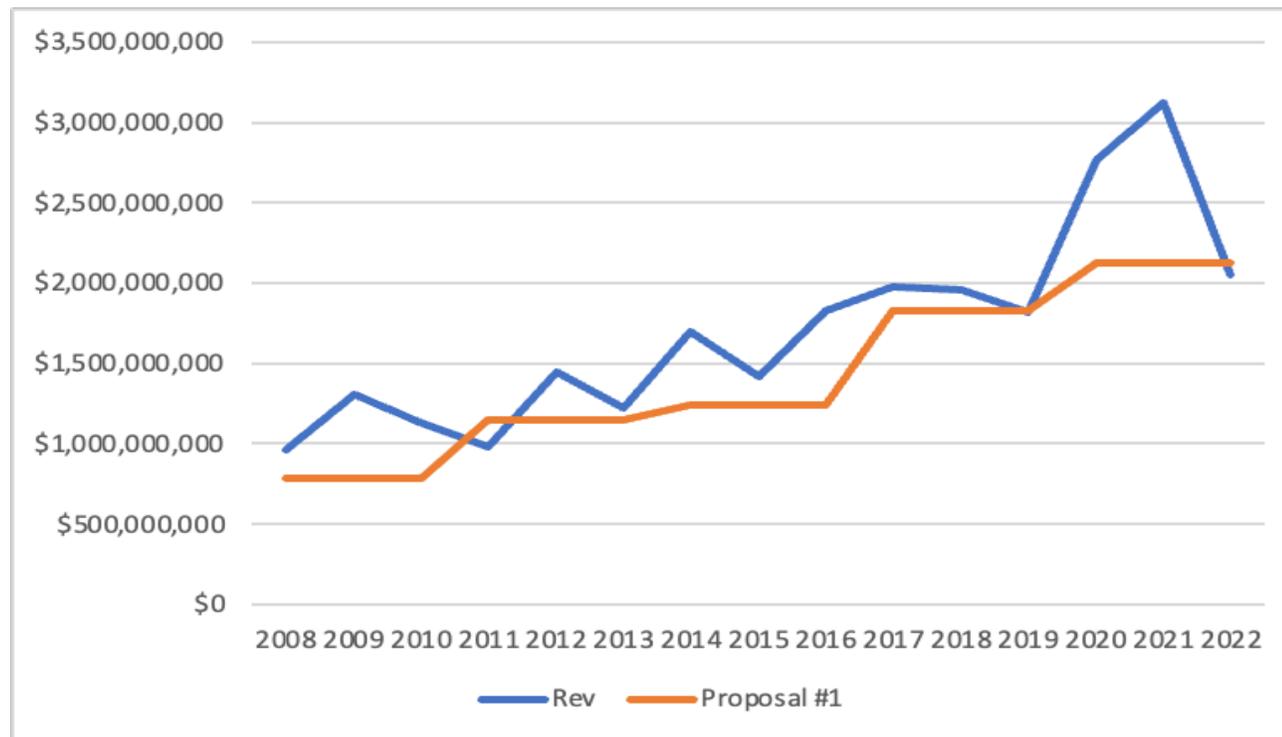
**The information included in this presentation may be pre-decisional, draft, and subject to change.*

Appendix



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

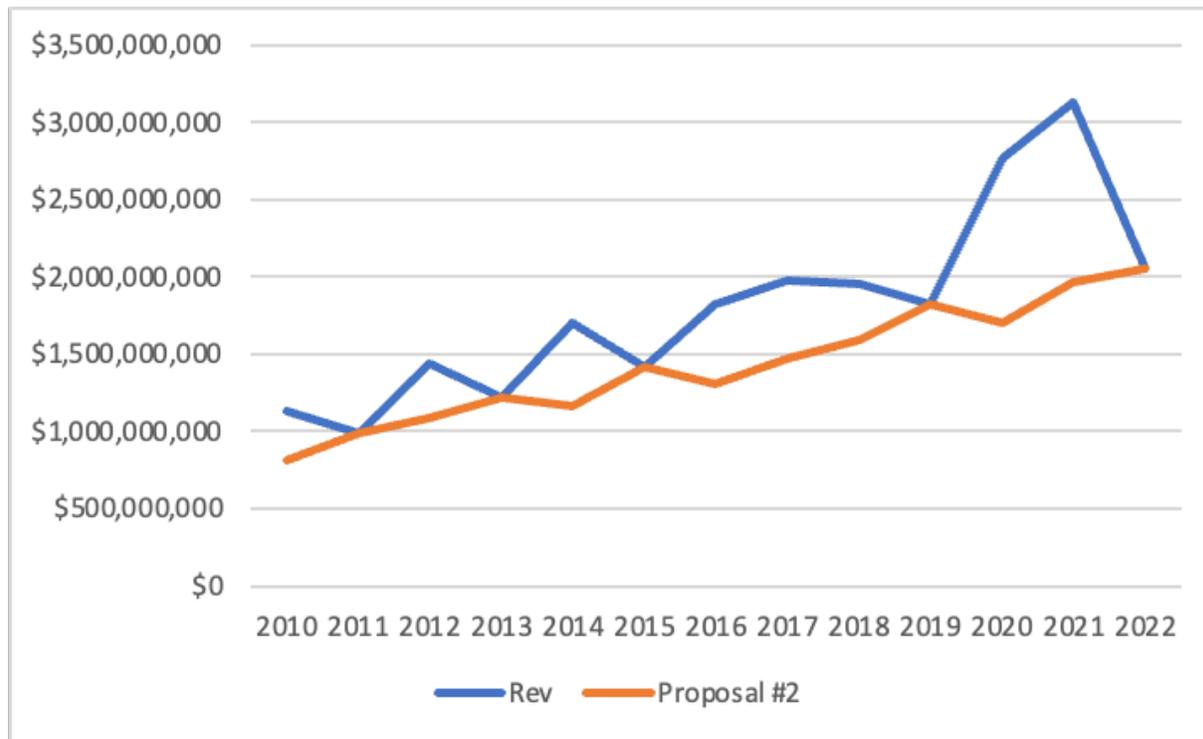
Proposal 1: Impact on Revenue Stability



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

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

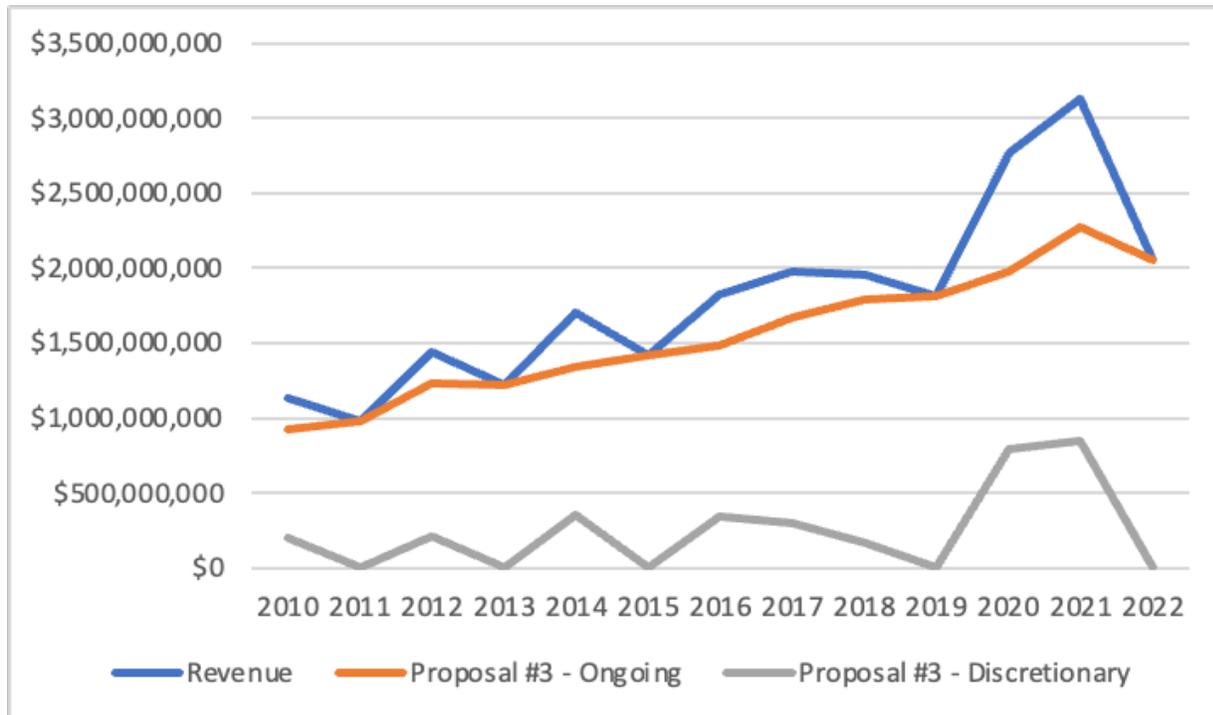
Proposal 2: Impact on Revenue Stability



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

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

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

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