Board Report

File #: 23-440, **Version:** 1

Receive a report and oral presentation on the Mental Health Services Act (MHSA) fund balance.

RECOMMENDATION:
It is recommended that the County of Monterey Board of Supervisors:
Receive a report and oral presentation on the Mental Health Services Act (MHSA) fund balance.

SUMMARY/DISCUSSION:
Background
The Mental Health Services Act (MHSA) was approved by California voters in 2004 and is funded by a 1% tax on personal incomes greater than $1 million per year. Funds are allocated on a monthly basis to counties based on a formula that accounts for population and other factors. Based on this formula, Monterey County's allocation is approximately 1.16% of all MHSA collections. This monthly allocation is an advance based on income tax payments with a true-up two years later. In accordance with Welfare and Institutions Code (WIC) Section 5847 and Section 3310 of California's Code of Regulations (CCR) Title 9, counties must produce a locally approved stakeholder-informed plan, known as the Three-Year Plan, describing how funds will be utilized.

Regulations on the Use of MHSA Funds
WIC Section 5892 states that 76% of MHSA funds received by the county must be allocated to the Community Services & Supports (CSS), 19% to Prevention and Early Intervention (PEI) programs, and 5% to Innovation (INN) projects. For CSS, WIC 5892 further provides that counties may transfer up to 20% of the prior five-year average CSS amount for Capital Facilities and Technological Needs (CFTN), Workforce and Education Training (WET), and Prudent Reserve (PR). All MHSA funds must be spent in accordance with the county's three-year plan.
For CSS and PEI, counties with populations over 200,000 have three fiscal years to spend the funds before they are reverted to the State, and for INN counties have three fiscal years to encumber funds with an innovation project and the life of the project to spend the funds.
CSS programs serve individuals affected by moderate to severe mental illness and their families. Services must be community-based, recovery-oriented, culturally competent, and voluntary. Additionally, over 50% of CSS funds must be allocated to Full-Service Partnerships (FSPs) to provide a "whatever it takes" level of services to support the most severely mentally ill clients and their families, twenty-four hours a day, seven days a week.

PEI programs are designed to prevent mental illnesses from becoming severe and disabling. PEI programs focus on preventing the onset of mental health issues and/or providing early intervention treatment and referral services. WIC Section 5840 requires PEI plans to include at least one program focused on delivering services to each of the following categories: 1) Prevention, 2) Early Intervention, 3) Stigma and Discrimination Reduction, 4) Recognizing Early Signs of Mental Illness, and 5) Promoting Greater Access and Linkage to Treatment. Suicide prevention programs also fit within the PEI component. Additionally, WIC Section 5840 requires that at least 51% of PEI funds must be allocated to serving individuals 25 years old or younger.

INN projects are defined as novel, creative, and/or ingenious mental health practices or approaches that are expected to contribute to learning and development within the communities through an inclusive process and represent unserved and underserved individuals. These projects are intended to contribute to learning about effective approaches to providing mental health services. Projects can only be funded on a one-time basis and are time limited.

CFTN funds are to be used to fund technological and capital facility projects needed to provide services. CFTN funds projects for the acquisition and development of land and the construction of buildings or the development, maintenance, or improvement of information technology for the provision of MHSA administration, services, and support.

WET funds are to be used to fund education and training programs and activities for prospective and current Public Mental Health System employees, contractors, and volunteers.

PR is a requirement for counties to establish and maintain a Prudent Reserve to ensure children, adults, and seniors can continue receiving services at current levels in the event of an economic downturn.

Fiscal History

Over the recent years, California's economy has experienced unprecedented growth and positive tax revenues, which resulted in higher than anticipated MHSA revenues to counties. Specifically, in Fiscal Years (FY) 2020-21 and 2021-22 in which the Monterey County Behavioral Health Bureau's (Bureau) actual receipts were, on average annually, approximately $6.6 million higher than budgeted, as shown in Attachment A Figure 1. These increases in revenues presented a challenge to the Bureau given that at the onset of the COVID-19 pandemic, there was uncertainty in the global economy and how that would impact MHSA revenues. In accordance with the uncertain financial outlook, the Bureau employed a conservative approach to develop its MHSA spending plan, which meant restrained spending. The conservative approach combined with unprecedented growth in receipts were the primary factors for the increase to the MHSA reserve between 2020 and 2022.

To address the increasing MHSA reserve, the Bureau evaluated programs and service levels and identified areas that could be appropriately bolstered with additional funding. As a result, the Bureau began implementing changes as part of its FY 2021-22 Annual Update, in which CSS funds were leveraged to fund additional staff-led programming and providers' contracts to maximize MHSA spending and minimize exposure to reversion of funds. FY 2021-22 also saw the highest total annual MHSA allocation of $36.2 million. The increase in revenue partially offset the increase in services and spending but ultimately still resulted in a decrease in the MHSA fund balance of approximately $10.5 million for FY 2021-22.

For the current Fiscal Year 2022-23, MHSA's volatility is expected to go in the opposite direction from the prior two fiscal years, resulting in a revenue decrease between the budgeted amount of $39.3 million to a cautiously optimistic projection of $30.7 million, as shown in Attachment A Table 1 and Figure 1. The decrease in revenues is the result from lower-than-anticipated revenues and the extension of the income tax deadline from April to October 2023 due to the 2022-23 winter storms. The lower-than-anticipated revenue combined with the FY 2020-21 increase in services is projected to decrease the MHSA Fund Balance by $16.2 million for an estimated FY 2022-23 ending fund balance of $29 million, as shown in Attachment A Table 2 and Figure 3.

Fiscal Projections

Contrasting the current FY 2022-23 MHSA revenue decrease, FY 2023-24 is projecting historically high revenues mainly due to a FY 2020-21 true-up and delayed payments due to the winter storm and income tax extensions. For Monterey County, the estimated FY 2023-24 allocation is projected at $54.5 million representing a $23.8 million increase from the FY 2022-23 estimate. In the ensuing fiscal years, a significant decrease of $19.9 million is projected between FY 2023-24 and FY 2024-25, with revenue estimated at $34.6 million for FY 2024-25 and $35.7 million and FY 2025-26. Please reference Attachment A Table 1 and Figure 2. While revenues continue to trend upward, the Bureau's increase in services, which started in FY 2021-22 will continue to offset revenues and will utilize fund balance, mainly in the CSS component, to fund programs, and at the current rate, it is projected that the Bureau could have an ending fund balance of $380 thousand, in the CSS component by the end of the current FY if no adjusting measures are taken, please reference Attachment A Table 2 and Figure 3. The Bureau is currently analyzing and developing financing strategies that address the issue with the least possible impact to services.

Additionally, on March 19, 2023, Governor Newsom announced a proposed ballot initiative that would be placed in the November 2024 general election that would modify the MHSA and redistribute the current 76% to CSS, 19% to PEI, and 5% Innovation allocations to 30% allocated to Homeless Services, 30% allocated to FSPs and the remaining 40% to all other services. While details are still limited, the Bureau projects this will significantly decrease MHSA revenues, and thereby services, given the revised allocation, as it is projected that the 30% allocation for Homeless Services will not be paid directly to counties.

MHSA Fund Balance and Uncommitted Funds

At the April 4, 2023, Budget Workshop, the Board of Supervisors requested an update on the MHSA fund balance that was not committed, and as expressed in earlier sections, the Bureau is projecting to utilize fund balance in the current fiscal year due to lower than projected revenues, please reference Attachment A Table 2 and Figure 3. FY 2022-23 projected consolidated MHSA fund balance will be $29 million broken down by component as follows:

- CSS - $380 thousand, future years are expected to utilize revenues fully.
- PEI - $8.1 million - this component has uncommitted funds; however, the Bureau is currently evaluating several new programs for funding as part of the Three-Year Plan.
- INN - $7.5 million - this component has uncommitted funds, which can be used to fund novel practices or approaches to provide mental health services in accordance with the regulations.
- WET - $1.7 million - this component has uncommitted funds, which will be used to enhance the public behavioral health workforce in accordance with the regulations.
- CFTN - $6.4 million - this component will fund certain capital projects in the future years. Please reference Attachment A Table 4 for a list of projects.
- PR - $4.9 million - this reserve can only be used to sustain CSS programs during an economic downtown.

Conclusion

As described in the Regulations section, spending of MHSA funds must be tied to a Three-Year Plan and/or an annual update and adhere to the MHSA regulations. This combined with the volatility of MHSA revenues, has made it challenging for counties across the state to spend down funds. While the Bureau has taken the necessary approaches to address the increase in the MHSA fund balance, the next challenge is to analyze and right-size MHSA programs to match projected revenues going forward.

This work supports the Monterey County Health Department 2018-2022 Strategic Plan Goals: 1, Empower the community to improve health; and 2, Enhance public health and safety through prevention. It also supports one or more of the ten essential public health services, specifically: 7. Link people to needed personal health services and assure the provision of health care when otherwise unavailable: and 8. Assure a competent public and personal health care workforce.

OTHER AGENCY INVOLVEMENT:

There was no involvement from other agencies in the preparation of this report.

FINANCING:
There will be no impact on the General Fund from the receipt of this report and presentation.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:
Check the related Board of Supervisors Strategic Initiatives:

☐Economic Development:
- Through collaboration, strengthen economic development to ensure a diversified and healthy economy.

☒Administration:
- Promote an organization that practices efficient and effective resource management and is recognized for responsiveness, strong customer orientation, accountability and transparency.

☒Health & Human Services:
- Improve health and quality of life through County supported policies, programs, and services; promoting access to equitable opportunities for healthy choices and healthy environments in collaboration with communities.

☐Infrastructure:
- Plan and develop a sustainable, physical infrastructure that improves the quality of life for County residents and supports economic development results.

☐Public Safety:
- Create a safe environment for people to achieve their potential, leading businesses and communities to thrive and grow by reducing violent crimes as well as crimes in general.

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Approved by:

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Attachments:
Board Report
Attachment A