



PETE RATES THE PROPOSITIONS

Sensible opinions on the California ballot propositions since 1980 by Pete Stahl

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March 2024

Pete recommends:

- 1 **YES** Behavioral Health and Homelessness Restructuring & Bond
My Semi-Biennial Lecture on Bonds

Proposition 1: Behavioral Health and Homelessness Restructuring & Bond – YES

SUMMARY: Under current law, revenue from the “millionaire’s tax” on high incomes must be spent on mental health programs. Over the years, this revenue has risen dramatically, from \$700 million in 2005-06 to \$4.7 billion in 2023-24, creating an [unexpected windfall](#). Prop 1 will retarget much of the new money towards supportive housing for the chronically homeless with mental illness and substance abuse disorders. It’s a great use of the windfall, and it acknowledges how intertwined mental health disorders, drug abuse, and homelessness are. Prop 1 also contains a \$6.4 billion bond to build behavioral health treatment centers and supportive housing for the homeless and at-risk, especially veterans. These facilities are crucial to addressing the root causes of the crisis.

See [My Semi-biennial Lecture on Bonds](#), at the end of this document, for my opinion of bonds in general.

DETAILS: In 2004, voters passed Prop 63, the [Mental Health Services Act](#) (MHSA), creating a series of county-run mental health programs funded by a “millionaire’s tax” of 1% on personal incomes over \$1 million. Since then, [revenue](#) from the tax has ballooned.

Homelessness and mental health disorders are linked. Roughly [two-thirds](#) of homeless people have active symptoms of mental illness, with one-quarter serious enough to be termed [severe](#). A [2017 CDC report](#) confirms the obvious: Homelessness exacerbates existing mental health conditions and increases the risk of developing a mental illness.

Prop 1 seeks to restructure MHSA spending to focus more on homelessness. The idea is to break the cycle of homelessness, mental health and substance use disorders, thereby bringing county programs closer to fulfilling the [original intent](#) of the MHSA.

Prop 1 has two elements. The first element changes how counties spend their mental healthcare funding, in part by adding treatment for substance abuse and housing for the mentally ill while reducing the proportion spent on less acute cases. The second element authorizes a \$6.4 billion bond to build facilities to serve those with mental health and substance use disorders.

If you want a quick rationale for voting Yes on Prop 1, try this: Homelessness is California’s number one problem. Because most homeless people suffer from mental health and/or drug use disorders, it makes sense to address all three together. Counties are primarily responsible for mental health services. Current law requires counties to spend most of their MHSA funding on mental health services and treatment, but not necessarily on housing. Prop 1 redirects about one-third of funding toward housing interventions. Yes, doing this will reduce spending on existing services and treatment **as a percentage of the total**. But because **total** millionaire’s tax revenue has **swelled over 500%** since 2005-06, Prop 1 will **not** cut these services to the bone; instead it will merely pare them back to levels of a few years ago. Refocusing on homeless patients will also require new facilities for in-patient beds and supportive housing. The bond in Prop 1 will allow those to be built.

Casual readers may stop here. Government nerds, read on at your peril. I’ll attempt to summarize the underlying problem, the history of mental health treatment, the current solution, and what Prop 1 would do. Do not read this while eating soup or anything else you could drown in if you suddenly fall asleep—it’s that stultifying. You have been warned.

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The problem. Statistics about homelessness are notoriously difficult to collect and sometimes contradictory, but these might paint a broadly accurate picture. See [this great report](#) from the California Budget & Policy Center for deeper details.

There are [over 180,000](#) homeless people in California. Most have active symptoms of mental illness, but less than one-fifth of those needing treatment have received it recently. Nearly [two-thirds](#) use or have used illicit drugs on a regular basis.

Among Californians who are not homeless, 5 million adults have experienced mental illness, and 1.2 million have experienced a **serious** mental illness. Serious mental illness is more common among Californians with the lowest incomes.

California has a [severe shortage](#) of adult psychiatric and community residential beds. Between 1995 and 2017, the number of short-term, inpatient psychiatric hospital beds declined 28%. Likewise, the number of community “board-and-care” beds for less severe cases have also fallen.

Historical background. In 1967, California’s Democratic-controlled [Legislature](#) and Republican [Governor](#) enacted the bipartisan [Mental Health Patients’ Bill of Rights](#). The new law ended the then-common practice of confining people with mental health disorders to state mental hospitals indefinitely against their will. Patients were now free to leave, and enough did so that most state mental hospitals closed permanently.

That 1967 deinstitutionalization [has been described as](#) one of the “most well intended but poorly executed movements in this state’s history.” The new law shifted (or, as state columnist extraordinaire [George Skelton](#) puts it, “dumped”) care of former patients onto the counties, but did not provide enough funding for the community-care programs that were supposed to replace the hospitals. As a result, the state saw a dramatic rise in homelessness and untreated mental illness. Within just one year, the number of mentally ill people entering the criminal justice system doubled.

As a result, prisons and jails became “[America’s new mental hospitals](#).” Of course, most correctional facilities are [among the worst places imaginable](#) to house and treat people with mental illness.

Over the ensuing decades, the Legislature tried various remedies, with limited success. Homelessness rose, mental health disorders went untreated, and prisons became warehouses for thousands of mentally ill people.

Current solution. In 2004, voters passed Prop 63, the MHSAs, instituting the millionaire’s tax to fund mental health services at the county level. ([I opposed Prop 63](#) that year because it amounted to “budgeting by ballot box.” I loved the millionaire’s tax, but the Legislature should have been given the freedom to direct that revenue where it was most needed every year. I also

correctly predicted the skyrocketing revenues. Yay me.)

When we voted on Prop 63, the Legislative Analyst estimated the revenue would be \$750 to \$800 million for the first two years, with the implication that it would remain in that ballpark for the long term. In fact, [this was the expectation](#) of the authors of Prop 63. Sure enough, the money was [relatively stable](#) for the first 10 years, through 2014-15. But the \$1 million floor on the millionaire’s tax is **not adjusted for inflation**, so over time more and more Californians have been subject to it. And rising income inequality means the rich have gotten richer. And we’ve had an economic bubble or two. As a result, distributions to counties from the millionaire’s tax have **grown prodigiously**, from \$700 million in 2005-06 to \$4.7 billion in 2023-24—a 570% increase.

At the same time, revenue from the tax has been **extremely volatile**. Some years it jumps up 60%, others it declines 35%. For example, following the 2008 recession, county distributions declined over a two-year period by 39%—more than one-third. And in 2021, the Dow was up 17%, leading to a huge surge in capital gains for high earners, and a bonanza for counties. (The state dampens the variability somewhat with a complicated “[true-up](#)” that delays the impact of major fluctuations for about two years. But an extended bull market can cause massive windfalls like the [\\$2.4 billion true-up](#) expected to be paid during 2023-24.)

What have we been buying with our MHSAs money? To get an idea, let’s look at what [Los Angeles County](#) did with its allocation in 2021-22, when it spent roughly \$700 million (not counting administration and reserve funds). MHSAs requires counties to spend 76% of their funding on a category named **Community Services and Supports** (CSS), which provides direct services to adults and children via several component programs. In 2021-22, CSS programs in LA County served 147,000 people. Here’s the breakdown by component:

- \$95 million: **Full Service Partnerships** [crisis response, intensive treatment, housing services, employment services, substance use treatment]
- \$183 million: Outpatient Care Services
- \$132 million: Alternative Crisis Services
- \$41 million: Housing
- \$35 million: Linkage [legal/judicial]
- \$6 million: Planning, Outreach & Engagement

Additional categories beyond CSS:

- \$63 million: Workforce Education and Training
- \$104 million: Prevention and Early Intervention [including stigma reduction and suicide prevention]
- \$36 million: Innovation [including transcranial magnetic stimulation for treatment of depression, and development of “trauma-resistant communities”]

These activities are all highly beneficial. Most are ongoing programs that must be funded year after year. The challenge for counties is understanding what funding levels are sustainable, considering the volatility of the revenue. The report from LA County projects, for example, CSS expenditures of \$95 million in 2021-22, growing 22% to \$116 million the next year and another 41% to \$164 million in 2023-24. Whether that level is sustainable over the long term is an open question.

What Prop 1 changes. The co-author of Prop 63, then-Assemblymember (now Sacramento Mayor) Darrell Steinberg, [recently said](#), “The original intent [of MHSA] was to ensure that the money went to the people who were the sickest of the sick. It was really a homeless mental health initiative ... to house people and to provide the comprehensive services for people living on the streets with serious mental illness.”

In the accounting from LA County above, you can see a few line items for housing, adding up to perhaps 8% of the total. The vast bulk of MHSA funding is being used to provide things like outpatient care, prevention, education, and innovative programs. These are undoubtedly helpful for non-severe cases or on a short-term basis, but they are **not** what homeless people experiencing mental health crises need to break out of their situations permanently.

What the homeless need are stable housing and support services to treat their disorders and help them function. This is what Prop 1 will emphasize. Under Prop 1, counties will be required to spend **35% for Full Service Partnerships alone**. In LA County, this would amount to a **threefold increase** in funding for this component. Full Service Partnership programs are the support services that the “sickest of the sick” need to get off the street, stay out of the criminal justice system, and stabilize.

To address the housing part of the equation, Prop 1 adds a requirement to spend **30% of funding on Housing Interventions** to provide assistance to people with serious mental illness and/or a substance use disorder. Included are rental subsidies for renters and operating subsidies for providers in both family housing and shared housing arrangements. Half of this funding must be used to help those experiencing chronic homelessness.

Finally, under Prop 1, **35% of funding will be spent on Behavioral Health Services and Supports**, a new category incorporating most of the remaining programs in the list above. Those programs comprised about 70% of LA County’s MHSA spending in 2021-22, so under Prop 1, it looks like the budget for those programs would have to be **squeezed in half**.

Those programs will certainly take a hit initially. But consider the [growing size of the pie](#). Distributions more

than doubled between 2019-20 and 2023-24. Yes, there may be great volatility year-to-year, but because of the nature of the millionaire’s tax, the overall trend is inexorable growth. Under Prop 1, the squeezed programs in the Behavioral Health Services category will quickly **bounce back to their earlier spending levels**, and possibly zoom beyond.

The growing-pie solution also addresses a provision of Prop 1 that allows the state to withhold an additional 5% of total funding from counties. The state will be using that 5% (initially around \$140 million) to **train healthcare workers** to staff the new services and facilities. Without this 5%, the programs risk failure for want of workers.

I haven’t mentioned the bond yet. Prop 1 contains a \$6.4 billion in bond money for construction and renovation of treatment and residential care facilities, which are required if the programs above are to have any hope of effectively addressing homelessness. A chunk of these facilities would be reserved for veterans who are homeless or at risk.

One point of contention regarding the bond is that it can be used for [voluntary and involuntary](#) behavioral treatment and residential facilities. This means Prop 1 might build locked facilities for coercive treatment (involuntary commitment). Some [disability rights advocates fear](#) this could enable a return to the bad old days of mass commitment of the mentally ill in locked mental hospitals. The way this provision was slipped into the bond legislation (actually it involved **removing** some text, which may have fooled some legislators), with wee-hours hearings late in the process, reinforces that fear.

I am a bit more sanguine on the matter. Governor Newsom, who has made Prop 1 his signature homelessness proposal, appears to have pushed for this change in response to a number of county mental health officials and family members of people with severe mental illness, who asked for the bond to be allowed to fund the “full spectrum” of treatment facilities. Newsom’s director of Health Care Services insists that the state’s policy objective remains to serve the mentally ill in the “least restrictive” way possible, and that’s the language that’s visible in your [Prop Book](#) (top of p. 103).

One last thing about Prop 1: It expands the range of disorders its programs can address to include **substance use**. As noted above, most homeless people have (or have had) substance use problems. Any comprehensive solution must treat substance abuse if we truly want to break the cycle. It’s refreshing to see the act revised to recognize this. As a consequence, the name of the act will be changed to from Mental Health Services Act (MHSA) to Behavioral Health Services Act (BHSA). Given the sweeping nature of Prop 1, this seems wholly appropriate.

My Semi-Biennial Lecture on Bonds

When California wants to finance a large project, it asks the voters for permission to take out a loan. Prop 1 on this ballot is just such a request. If voters approve, the state may take out a loan for the project by selling general obligation bonds, which are paid back with interest over 30 years. The bond payments come out of the state's main budget, the General Fund. So when we vote on bond measures, we are really voting on whether the project in question ought to be added to the state's budget.

"Wait a minute!" I hear you cry. "What about those interest payments? Won't we end up paying more for interest than for the bonds themselves?" This may once have been so, but with today's low interest rates, each dollar of bond money will cost 40 cents or less in interest, accounting for inflation. (See details on p. 16 of your [ballot pamphlet](#).)

[*Note:* The Legislative Analyst actually offers **two** figures for the cost of borrowing a dollar: 40 cents for a 30-year bond at 5% interest, and 10 cents for a 20-year bond at 4% interest, with rates of inflation unstated. I'll leave it to the accountants among you to determine whether those are accurate.]

"Okay," you admit, "but loans are still more expensive than pay-as-you-go." This is true. Still, loans are the only way to buy a house, or a car, or anything else that you need **immediately** but can't pay for yet. It's worth paying the premium of interest to get the funding **now**.

"Well and good," you continue. "But there are **\$6.4**

billion in bonds on this ballot. Isn't that too much to borrow?" For you, yes, but the State of California can handle it. Bond payments today amount to just over 3% of the General Fund, down from a high of nearly 6% fourteen years ago and below the historical average of 4%. Prop 1 won't appreciably increase that figure.

Most bonds fund long-lived, tangible acquisitions, such as buildings and equipment. It's sensible to make extended payments for things that will be used far into the future.

Remember, too, that California's population continues to grow by millions every decade. (Yes, we've hit a lull since the pandemic, but there's no reason to believe that's permanent. This is still the best state to live in, and everyone knows it.) Borrowing makes particular sense if you know your income will go up in the future. As the state grows, over time the General Fund will grow too.

There is one last reason to vote for a bond measure. In addition to being formal requests for permission to take out loans, bond measures are also looked upon as referenda on the merits of the proposed projects. If a bond measure fails, legislators are likely to believe that the public feels the project is not worthy of receiving state funding. By voting no, you may have meant, "Yes on the project but no on the bonds," but your message to Sacramento will read, "No on the project." So if you vote down a bond measure just because you don't like bonds, you may well have killed forever the project the bonds were to have funded.

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Your comments are welcome at
pete@peterates.com