

Proposition 1E: Mental Health Services Act

**Board Action:**

**NO POSITION**

**Rationale**

SDCTA opposed Proposition 63 due to the fact that there is no nexus between income level and the need for mental health services. Furthermore, there is little oversight once the funding reaches the local level to ensure that the funds will be expended efficiently. Proposition 1E fails to address either of these concerns. Rather, Prop 1E only serves to help balance the current state budget by cutting funding to state mental health services. While SDCTA recognizes that cuts may be necessary in difficult economic times, it is unknown whether cutting mental health services may actually lead to net costs to taxpayers in public safety and medical services. Additionally, Prop 1E would direct Prop 63 revenue to the State General Fund, rather than the substantial Prop 1E reserves.

**Background**

In January 2009, it was projected that the state would face a \$40 billion shortfall over fiscal years 2008-09 and 2009-10 if no corrective actions were taken. In February, the Governor and the Legislature agreed on a package to balance the current year and FY09-10 budget. This package is anticipated to generate \$98 billion in revenue and spend approximately \$92 billion. The remaining \$6 billion will cover the FY08-09 deficit and build up reserves<sup>1</sup>.

As part of the budget package, six propositions were placed on a special election ballot to be held on May 19<sup>th</sup>. The FY09-10 budget depends on access to \$6 billion outlined within these measures. If voters approve all of the measures, it is expected that the state will still face multi-billion-dollar budget shortfalls in the coming years

*Proposition 63*

In 2004 California State voters approved Proposition 63, which provides additional funding for mental health services by adding “a personal income tax surcharge of 1% on the portion of taxpayer’s taxable income in excess of \$1 million.”<sup>2</sup> Revenues generated

from the passage of Prop 63 have ranged from approximately \$900 million to \$1.5 billion per year.

Proposition 63 has collected a substantial amount of reserves since 2004. An audit of DMH showed, “As of March 31, 2008, approximately \$3.2 billion has been collected and

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<sup>1</sup> Overview of the State Budget. California Legislative Analyst’s Office. February 25, 2009

<sup>2</sup> Proposition 1E overview. California Legislative Analyst’s Office. May 31, 2009

\$2.9 billion has been allocated for county use. Of the \$2.9 billion allocation, \$1 billion has been approved for distribution and \$726 million has been distributed to the counties.”<sup>3</sup> Therefore at least \$2.2 billion of prop 63 funds have gone unused into the reserves.

Use of Prop 63 reserves has previously been a proposed method of Californian Republicans to balance the budget. “In December 2008, Republican legislators put forward a plan that would seek voter approval to reallocate \$3.9 billion from Proposition 63 reserves.”<sup>4</sup>

*Program Administration and Activities*

Figure 1; Courtesy of California Legislative Analyst’s Office  
Major Program Activities Supported With Proposition 63 Funding

- **Community Service.** Expansion of “systems of care” for seriously emotionally disturbed children and adults with serious mental illness, including both mental health treatment and services such as housing to assist patients
- **Mental Health Workforce Education and Training.** Stipends, loan forgiveness, scholarship programs, and other incentives to address existing shortages of mental health staffing in community programs and ensure a sufficient workforce to meet future demand.
- **Capital Facilities and Technology.** New programs to allocate funding to counties for technology improvements and capital facilities for the provision of mental health services.
- **Prevention and Early Intervention.** State and local prevention and early intervention programs to identify persons showing early signs of mental illness and place them into treatment quickly before their illness becomes more severe.
- **Innovation Programs.** New programs to experiment with ways to improve access to mental health services (including underserved groups), to improve program quality, or to promote interagency collaboration in the delivery of services to clients.

The leading administrator for Prop 63 in California is the State Department of Mental Health (DMH). County agencies work in congruence with DMH as local policy implementers. Those agencies must submit contracts for state review and approval in order to obtain Proposition 63 funds for mental health programs. Federal funding will

match mental health allocations for programs that provide service to persons eligible for Medi-Cal. Most of those cases involve low-income families with juvenile, senior, or disabled members that require mental health services. The chart below displays the five major program activities supported with Proposition 63 funding.

<sup>3</sup> Performance Audit: California Department of Mental Health: Mental Health Services Act (May 2008)

<sup>4</sup> Sacramento Bee article. January 13, 2009. sacbee.com

### *Early Periodic Screening, Diagnosis, and Treatment*

Under federal mandate, all states must implement an Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program. The service works as a benefit to Medi-Cal beneficiaries under age 21 and is “designed to improve the health of low-income children, by financing appropriate and necessary pediatric services.” EPSDT provides “counseling and assistance in stabilizing children and young adults who experience a mental health crisis.” The program is usually administered by DMH through county contracts. The federal government presents nearly half of the funding needed for EPSDT, which, in California, totals in excess of \$1 billion. The remaining costs are mostly carried by state funds, and less so by counties.

## **Proposal**

The Proposition 1E ballot label will read:

MENTAL HEALTH FUNDING. TEMPORARY REALLOCATION. Helps balance state budget by amending the Mental Health Services Act (Proposition 63 of 2004) to transfer funds, for two years, to pay for mental health services provided through the Early and Periodic Screening, Diagnosis and Treatment program for children and young adults. Fiscal impact: State General Fund savings of about \$230 million annually for two years (2009-10 and 2010-11). Corresponding reduction in funding available for Mental Health Services Act programs.

### *Temporary Redirection of Prop 63 Revenue*

Currently, Prop 63 revenues are directed to the state Department of Mental Health. With passage of Prop 1E, a portion of this revenue would instead be directed to the state General Fund. These redirected funds may only be used to support the EPSDT program.

### *Reduction to Mental Health Services Funding*

The passage of Prop 1E would have a net negative effect of approximately \$460 million on funding for mental health services, and a net savings of the same amount for the state through FY10-11.

## **Fiscal Impact**

### *Impact on Citizens*

Proposition 1E implements no change on the taxation of any California citizens. Monetary collections, enacted in 2004, will continue as they have for the past four years.

### *Account shifts*

Current legislation states, “[Prop 63] funds shall not be used to supplant existing state or county funds utilized to provide mental health services. The State shall continue to provide financial support for mental health programs with not less than the same entitlements, amounts of allocations from the General Fund and formula distributions of

dedicated funds as provided in the last fiscal year which ended prior to the effective date of this act.” Passage of Prop 1E would change this by redirecting a portion of revenue from Prop 63 to the state General Fund to supplant General Fund expenditures on the federally mandated EPSDT program. In effect, General Fund dollars that were being utilized to fund EPSDT would be freed to address the FY09-10 budget deficit.

Specifically, approximately \$227 million of Prop 63 funds would be redirected to the General Fund’s EPSDT obligation for FY09-10 and a maximum of \$234 million would be redirected in the following fiscal year. This change to Prop 63 legislation would become inoperative on July 1, 2011.

*Potential Loss of Federal Funds*

California EPSDT programs will endure a loss of federal matching funds that traditionally come through Medi-Cal funding. The fiscal amount of burden from such a loss is unknown. The ways in which counties choose to reform their programs will determine the amount of loss and who will bear the burden.

*Increased Costs to Public Safety and Medical Services*

The net reduction in funding for mental health services may impact public safety and medical services due to possible increase in criminal activity, hospitalization, emergency care, homelessness and incarceration. These increased costs may result due to the possible elimination of programs that serve the population that is prone to incarceration or hospitalization because they are unable to afford mental health care.