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# Overview of Proposition 1 Funding Changes and Assessment of Behavioral Health Continuum Infrastructure Program

PRESENTED TO: Assembly Committee on Health
Hon. Mia Bonta, Chair

LEGISLATIVE ANALYST'S OFFICE

# Order of Presentation

- **The County Role and Financing in the State's Behavioral Health System**
- **Proposition 1's Changes to How Counties Provide Services Using Millionaire's Tax Revenues**
- **Proposition 1's Other Major Changes to the Behavioral Health Services Act (BHSA)**
- **Time Line of Major BHSA Milestones**
- **Background on the Behavioral Health Continuum Infrastructure Program (BHCIP)**
- **LAO Assessment of BHCIP Awards to Date**

# The County Role and Financing in the State's Behavioral Health System

***Counties Provide Mental Health Care and Drug or Alcohol Treatment to Those With the Highest Service Needs.*** Counties have the primary role in the funding and delivery of mental health care and substance use disorder (SUD) services to individuals with low income and severe mental illnesses. These services are primarily provided through the Medi-Cal program to eligible individuals. (In contrast, mild-to-moderate outpatient mental health services for low-income individuals are funded by the state and delivered primarily through Medi-Cal managed care plans.)

***Funding for Counties Comes From Various Sources, Including a Tax on People With High Incomes (the "Millionaire's Tax").*** Counties receive roughly $10 billion to $13 billion per year in statewide taxes (largely local realignment revenues) and federal money to provide mental health care and SUD treatment. Roughly one-third of the money received comes from a tax levied on people with incomes over $1 million per year—referred to as the millionaire's tax—that has been collected since 2005 following voter approval of Proposition 63 (2004). This tax typically raises between $2 billion and $3.5 billion annually that is deposited into a special fund and to be spent on behavioral health services.

***Counties Have Some Choices About How to Provide Services Using Millionaire's Tax Revenues.*** Most of the money from the millionaire's tax goes directly to counties, with the balance going to the state. Up until 2024 under Proposition 63, counties received millionaire's tax revenues that were allocated across three broadly defined funding "buckets." Counties had significant flexibility in how to provide services within the parameters of the funding buckets. Proposition 1—approved by the voters in March 2024—makes changes to the *uses* of the millionaire's tax revenues (the tax itself was not changed) by providing the state with a somewhat greater share of the tax and revising the funding buckets that apply to counties. While the degree of flexibility afforded counties was lessened somewhat by the funding bucket revisions, how much counties spend on different behavioral health services continues to depend on future county decisions. We discuss these Proposition 1 changes in more detail on the next two pages.

# Proposition 1's Changes to How Counties Provide Services Using Millionaire's Tax

| Allocation of Funding Categories[a] Under Proposition 63 (2004) | | |
|---|---|---|
| **Funding Category** | **Examples of Types of Services/ Activities** | **Revenue Allocation** |
| **Community Services and Supports** | • Full-Service Partnerships<br>• Outpatient Treatment<br>• Crisis Intervention<br>• Wellness Centers<br>• Housing Services<br>• Capital Facilities<br>• Workforce and Training<br>• Deposits Into Prudent Reserves | 76 percent |
| **Prevention and Early Intervention** | • School-based Services<br>• Outreach to Older Adults<br>• Suicide Prevention | 19 percent |
| **Innovation Programs** | • Technology Integration<br>• Holistic Care | 5 percent |
| **Allocation of Funding Categories[a] Under Proposition 1 (2024)** | | |
| **Funding Category** | **Examples of Types of Services/ Activities** | **Revenue Allocation** |
| **Housing Interventions** | • Rental and Operating Subsidies<br>• Family Housing for Children and Youth | 30 percent |
| **Full Service Partnership Services** | • Wrap-Around Services<br>• Assertive Community Treatment | 35 percent |
| **Behavioral Health Services and Supports** | • Early Intervention<br>• Outreach and Engagement<br>• Outpatient Treatment<br>• Wellness Centers<br>• Capital Facilities | 35 percent |

[a] Refers to the allocation of millionaire's tax revenues distributed to counties across various specified funding categories.

# Proposition 1's Other Major Changes to the BHSA

***State Share of Millionaire's Tax Revenues Increased, but Less Flexibility Available.*** Prior to Proposition 1, the state could use up to 5 percent of total revenues from the millionaire's tax (the remaining 95 percent went to counties) to administer the act. Under Proposition 1, the state share of total funding increased to 10 percent, but only 3 percent can be used for administration. The remaining state share of funding will be used for behavioral health workforce development programs (3 percent) and statewide prevention services (4 percent).

***Eligible Populations Expanded to Individuals With SUD.*** Prior to Proposition 1, individuals with SUD challenges had to have a co-occuring mental health challenge to receive services funded from the millionaire's tax. Proposition 1 changed the law so that people with only SUD challenges could receive such services.

***Additional Reporting Requirements for Counties on Behavioral Health Expenditures.*** Prior to Proposition 1, counties were required to submit three-year plans on how they intended to use revenues collected from the millionaire's tax on behavioral health services. Proposition 1 updated the requirements of the three-year plan so that counties are required to report how all available behavioral health funding will be used for the provision of behavioral health services.

# Time Line of Major BHSA Implementation Milestones

| Time Line | Examples of Types of Services/Activities |
|---|---|
| **Early 2025** | • DHCS to release policy manual on BHSA implementation, including multiyear funding plan guidance. |
| **Early 2025 - June 2026** | • Counties, local health jurisdictions, and community members meet to develop first integrated plans. |
| **June 2026** | • Counties submit first integrated plans to DHCS. |
| **July 2026** | • New BHSA funding categories take effect. |
| **January 2029** | • First behavioral health funding expenditure report due to DHCS. |

BHSA = Behavioral Health Services Act and DHCS = Department of Health Care Services.

# Background on BHCIP

***Provided $1.7 Billion in Grants in 2022 and 2023 to Build New Behavioral Health Infrastructure.*** BHCIP grants are being used to build a variety of new inpatient and outpatient capacity in mental health and SUD treatment facilities. BHCIP grants are available to cities, counties, tribes, nonprofits, and corporations. Funding was provided in five rounds, with nearly 90 percent of dollars awarded in three main competitive and themed rounds. For example, $471 million in funding was provided in Round 4, the focus of which was projects benefitting children and youth age 25 and younger and their families. The Department of Health Care Services (DHCS) estimates that BHCIP-funded facilities will offer inpatient treatment to more than 2,600 people at any time and outpatient treatment to over 280,000 people annually.

**BHCIP Awards Made in Five Funding Rounds**
(In Millions)

| | |
|---|---|
| Round 1: Mobile Crisis Services[a] | $206 |
| Round 2: County and Tribal Planning | 7 |
| Round 3: Launch Ready | 522 |
| Round 4: Children and Youth | 471 |
| Round 5: Crisis and Behavioral Health Continuum | 445 |
| **Total[b]** | **$1,651** |

[a] Includes $56 million in federal grant funding that was in addition to state funding.
[b] Excludes $30 million that was to be distributed in a planned sixth round. Excludes $4.4 billion in general obligation bond authority provided by Proposition 1 (2024).

BHCIP = Behavioral Health Continuum Infrastructure Program.

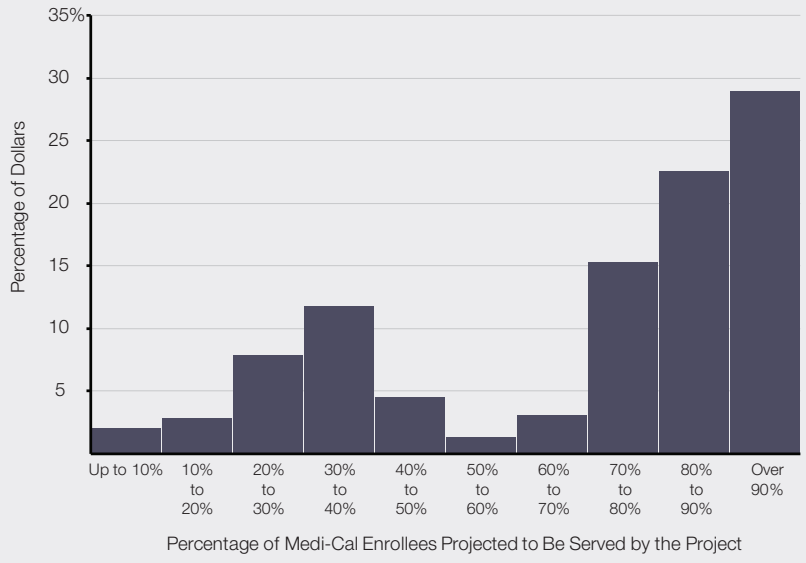
***Proposition 1 Infuses BHCIP With Additional $4.4 Billion.*** Proposition 1, which authorized the state to sell $4.4 billion in general obligation bonds for BHCIP. This brings total funding for the program to over $6 billion. At least $1.5 billion of the Proposition 1 bond dollars must be allocated to local governments, including $30 million for tribes. DHCS is working quickly to implement the bond, with a goal to award up to the first $3.3 billion in May 2025 and a stated commitment to award all funding by 2026.

# LAO Assessment of BHCIP Awards to Date

## Who Is Benefitting From BHCIP?

***Majority of Funding for Projects With Heavy Focus on Medi-Cal Population.*** Over half of BHCIP grant dollars have been awarded to projects estimated to serve at least 80 percent Medi-Cal enrollees. Given the state's direct responsibility for the Medi-Cal program, and that Medi-Cal enrollees are disproportionately affected by behavioral health challenges, it makes sense that the state would prioritize this population.

**Over Half of BHCIP Awards for Projects Estimated to Serve at Least 80 Percent Medi-Cal Enrollees**




BHCIP = Behavioral Health Continuum Infrastructure Program.

***Challenging to Address Outcomes for Other Populations of Concern.*** DHCS has identified three populations of focus for whom "disparities and poor health outcomes for people of color are particularly prominent." At least $540 million of BHCIP grants have been awarded to projects serving children and youth and their families. In addition at least $80 million was awarded to tribal entities. The grant data we reviewed did not allow us to evaluate the extent to which projects are benefitting justice-involved individuals.

# LAO Assessment of BHCIP Awards to Date

*(Continued)*

- ***Suggested Questions for Legislative Oversight:***
  - About 5 percent of program dollars have gone to projects estimated to serve less than 20 percent Medi-Cal enrollees. While a small share of BHCIP dollars, in general, what does DHCS see as the benefit to the state from funding projects with such low concentrations of Medi-Cal enrollees?
  - Can DHCS provide more detail on the extent to which BHCIP awards are benefitting children and youth, American Indian/Alaska Native, and justice-involved individuals?

# LAO Assessment of BHCIP Awards to Date

*(Continued)*

## Awards Could Be Better Aligned With Needs

***Regional Funding Approach Potentially Reinforces Inequities in Behavioral Health Infrastructure.*** The state has limited data on capacity for most behavioral health facility types. In the absence of these data, we assessed the extent to which BHCIP grants were being awarded in the regions of greatest need, as measured by rates of serious mental illness, SUD, and opioid overdose deaths. We found that BHCIP awards could be better aligned with need. Furthermore, the approach used by DHCS to allocate funding regionally is based mostly on historical service provision. To the extent that there have been differences in access to behavioral health services due in part to relative differences in infrastructure capacity, the funding approach may be reinforcing historical inequities in infrastructure.

***BHCIP Does Not Appear to Be Addressing Regional Inequities in Adult Inpatient Mental Health Bed Capacity.*** The state collects relatively good data on capacity for inpatient mental health beds. A 2022 RAND Corporation report assessed the extent of shortages for these beds, finding the shortages varied by region and level of acuity. Based on the RAND study and our review of BHCIP grant data, we found that most new capacity has been added in the four regions estimated by RAND to have the least need. In addition, no new capacity was added in the region estimated to have the greatest need—the southern San Joaquin Valley (consisting of Fresno, Inyo, Kern, Kings, and Tulare Counties).

- ***Suggested Questions for Legislative Oversight:***
  - Should DHCS consider an alternative methodology for determining regional funding in order to better target funds to areas with greatest local needs?
  - What is DHCS doing to ensure that awards made using Proposition 1 bond dollars address geographic inequities in adult inpatient mental health beds?
  - What is DHCS doing to work with applicants in the southern San Joaquin Valley region to ensure future awards are used to build adult inpatient mental health beds in that region?

# LAO Assessment of BHCIP Awards to Date

*(Continued)*

## BHCIP Not Working Well in All Small Counties

***Despite DHCS' Efforts, Many Small Counties Largely Left Out of BHCIP.*** Twenty percent of awards in Rounds 3 through 5 were distributed at DHCS' discretion. DHCS made projects in small counties a priority with this discretionary funding. (This includes awards for both county- and provider-sponsored projects.) Most of this funding for projects in small counties, however, was concentrated in 11 small counties, with the remaining 19 small counties not receiving any funding in these grant rounds.

**About Two-Thirds of Small Counties Left Out of BHCIP's Three Main Infrastructure Rounds**

| County | Awards | Per 10,000 Residents |
|---|---|---|
| Glenn | $17,278,529 | $6,004,284 |
| Calaveras | 25,929,361 | 5,759,393 |
| Tuolumne | 13,940,073 | 2,557,812 |
| Humboldt | 30,209,240 | 2,251,615 |
| Mendocino | 17,079,947 | 1,892,997 |
| Imperial | 29,498,033 | 1,635,200 |
| Madera | 24,989,161 | 1,591,261 |
| El Dorado | 14,027,556 | 741,046 |
| Nevada | 6,149,363 | 608,366 |
| Napa | 8,085,736 | 596,452 |
| Lake | 2,000,000 | 295,871 |
| Alpine | — | — |
| Amador | — | — |
| Del Norte | — | — |
| Inyo | — | — |
| Kings | — | — |
| Lassen | — | — |
| Mariposa | — | — |
| Modoc | — | — |
| Mono | — | — |
| Plumas | — | — |
| San Benito | — | — |
| Shasta | — | — |
| Sierra | — | — |
| Siskiyou | — | — |
| Sutter | — | — |
| Tehama | — | — |
| Trinity | — | — |
| Yuba | — | — |
| **Total** | **$189,186,999** | |

BHCIP = Behavioral Health Continuum Infrastructure Program.

# LAO Assessment of BHCIP Awards to Date

*(Continued)*

- ***Suggested Questions for Legislative Oversight:***
  - What issues are preventing more small counties from benefitting from BHCIP?
  - What is DHCS doing to address any barriers keeping small counties from benefitting from BHCIP?
  - Should a different funding approach be considered for a portion of the $4.4 billion bond to ensure that progress is made in building out behavioral health infrastructure in all counties?

# LAO Assessment of BHCIP Awards to Date

*(Continued)*

## BHCIP May Not Be Working Well for All Grant Applicants

***Some Program Requirements Seem Challenging, Especially for Small and Relatively Disadvantaged Applicants.*** Our review finds that some aspects of BHCIP can be challenging for certain applicants. For example, DHCS has scored projects higher the closer they are to being launch ready. Applicants must be able to dedicate a good deal of resources, staff, and time to present a relatively competitive project. Relatively small and disadvantaged applicants may struggle to compete in this environment. Moreover, the emphasis on awarding grant dollars as quickly as possible may be limiting BHCIP's ability to build the most complex and hardest-to-site projects for which BHCIP can have the greatest impact.

- ***Suggested Questions for Legislative Oversight:***
  - What is the basis for continuing to provide a scoring preference to launch-ready projects in administering the Proposition 1 bond?
  - Does DHCS agree that the prioritization of launch-ready projects creates barriers for relatively small and disadvantaged applicants?
  - Does the prioritization of launch-ready projects limit BHICP's ability to build relatively complex and hard-to-site projects?