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# Proposition 63

## Mental Health Services Expansion and Funding. Tax on Incomes Over $1 Million. Initiative Statute.

## Background

***County Mental Health Services.*** Counties are the primary providers of mental health care in California communities for persons who lack private coverage for such care. Both children and adults are eligible to receive such assistance. Counties provide a range of psychiatric, counseling, hospitalization, and other treatment services to patients. In addition, some counties arrange other types of assistance such as housing, substance abuse treatment, and employment services to help their clients. A number of counties have established so-called "systems of care" to coordinate the provision of both medical and nonmedical services for persons with mental health problems.

County mental health services are paid for with a mix of state, local, and federal funds. As part of a prior transfer of mental health program responsibilities from the state to counties, some state revenues are automatically set aside for the support of county mental health programs and thus are not provided through the annual state budget act. Other state support for county mental health programs is provided through the annual state budget act and thus is subject to change by actions of the Legislature and Governor.

***State Personal Income Tax System.*** California 's personal income tax was established in 1935 and is the state's single largest revenue source. It is expected to generate an estimated $39 billion in revenues for the support of state government in 2004-05. The tax is levied on both residents and nonresidents, with the latter paying taxes on income derived only from California sources. Tax rates range from 1 percent to 9.3 percent, depending on a taxpayer's income level.

## Proposal

This proposition establishes a state personal income tax surcharge of 1 percent on taxpayers with annual taxable incomes of more than $1 million. Funds resulting from the surcharge would be used to expand county mental health programs.

***New Revenues Generated Under the Measure.*** This measure establishes a surcharge of 1 percent on the portion of a taxpayer's taxable income that exceeded $1 million. The surcharge would be levied on all such tax filers beginning January 1, 2005. We estimate that 25,000 to 30,000 taxpayers would be subject to paying the surcharge.

Under this measure, beginning in 2004-05, the State Controller would transfer specified amounts of state funding on a monthly basis into a new state fund named the Mental Health Services Fund. The amounts transferred would be based on an estimate of the revenues to be received from the surcharge. The amounts deposited into the fund would be adjusted later to reflect the revenues actually received from the tax surcharge.

***How This Funding Would Be Spent.*** Beginning in 2004-05, revenues deposited in the Mental Health Services Fund would be used to create new county mental health programs and to expand some existing programs. These funds would not be provided through the annual state budget act and thus amounts would not be subject to change by actions of the Legislature and Governor. Specifically, the funds could be used for the following activities:

- ***Children's System of Care.*** Expansion of existing county system of care services for children who lack other public or private health coverage to pay for mental health treatment.

- ***Adult System of Care.*** Expansion of existing county system of care services for adults with serious mental disorders or who are at serious risk of such disorders if they do not receive treatment.

- ***Prevention and Early Intervention.*** New county prevention and early intervention programs to get persons showing early signs of a mental illness into treatment quickly before their illness becomes more severe.

- ***"Wraparound" Services for Families.*** A new program to provide state assistance to counties to establish wraparound services, which provide various types of medical and social services for families (for example, family counseling) where the children are at risk of being placed in foster care.

- ***"Innovation" Programs.*** New county programs to experiment with ways to improve access to mental health services, including for underserved groups, to improve program quality, or to promote interagency collaboration in the delivery of services to clients.

- ***Mental Health Workforce: Education and Training.*** Stipends, loan forgiveness, scholarship programs, and other new efforts to (1) address existing shortages of mental health staffing in county programs and (2) help provide the additional staffing that would be needed to carry out the program expansions proposed in this measure.

- ***Capital Facilities and Technology.*** A new program to allocate funding to counties for technology improvements and capital facilities needed to provide mental health services.

This measure specifies the portion of funds that would be devoted to particular activities. In 2004-05, most of the funding would be provided for expanding the mental health care workforce and for capital facility and technology improvements. In subsequent years, most funding would be used for new prevention and early intervention programs and various expansions of the existing types of services provided by counties directly to mental health clients.

***Oversight and Administration.*** Under the terms of the proposition, each county would draft and submit for state review and approval a three-year plan for the delivery of mental health services within its jurisdiction. Counties would also be required to prepare annual updates and expenditure plans for the provision of mental health services.

The Department of Mental Health, in coordination with certain other state agencies, would have the lead state role in implementing most of the programs specified in the measure and allocating the funds through contracts with counties. In addition, a new Mental Health Services Oversight and Accountability Commission would be established to review county plans for mental health services and to approve expenditures for certain programs. The existing Mental Health Planning Council would continue to review the performance of the adult and children's system of care programs. The Franchise Tax Board would be the lead state agency responsible for administration of the tax provisions of this proposition.

The measure permits up to 5 percent of the funding transferred into the Mental Health Services Fund to be used to offset state costs for implementation of the measure. Up to an additional 5 percent could be used annually for county planning and other administrative activities to implement this measure.

***Other Fiscal Provisions.*** The proposition specifies that the revenues generated from the tax surcharge must be used to expand mental health services and could not be used for other purposes. In addition, the state and counties would be prohibited from redirecting funds now used for mental health services to other purposes. The state would specifically be barred from reducing General Fund support, entitlements to services, and formula distributions of funds now dedicated for mental health services below the levels provided in 2003-04.

The state would also be prohibited from changing mental health programs to increase the share of their cost borne by a county or to increase the financial risk to a county for the provision of such services unless the state provided adequate funding to fully compensate for the additional costs or financial risk.

## Fiscal Effects

***Revenue and Expenditure Increases.*** The tax surcharge would generate new state revenues of approximately $275 million in 2004-05, $750 million in 2005-06, $800 million in 2006-07, and probably increasing amounts annually thereafter. (The impact in 2004-05 is a partial-year effect generated by increased taxpayer withholding, with the first full-year impact occurring in 2005-06.) The state and counties would incur additional expenditures for mental health programs basically mirroring the additional revenues generated by the surcharge.

***Reduction in Support Prohibited.*** As noted earlier, this measure contains provisions that prohibit the state from reducing financial support for mental health programs below the 2003-04 level and that restrict certain other changes in mental health programs. Such restrictions could prevent the Legislature and Governor from taking certain actions in the future to reduce state expenditures for mental health services. As a result, state spending in the future could be higher than it otherwise would have been.

***State and County Administrative Costs.*** This measure would result in significant increased state and local administrative expenditures related to the proposed expansion of county mental health services. These costs could amount to several millions of dollars annually for the state, with comparable additional costs incurred by county mental health systems on a statewide basis. These administrative costs would be largely if not completely offset by the additional revenues generated under this measure.

The state administrative costs associated with the tax provisions of this measure would be minor.

***Additional Federal Funds.*** The expansion of county mental health services provided under this proposition—particularly the provisions expanding services for adults who are mentally ill—could result in the receipt of additional federal funds for community mental health services under the Medi-Cal Program. The amount of additional federal funds is unknown and would depend upon how the state and counties implement this proposal, but could potentially exceed $100 million annually on a statewide basis.

***Partially Offsetting Savings.*** State and national studies have indicated that mental health programs similar to some of those expanded by this measure generate significant savings to state and local governments that partly offset their additional cost. Studies of such programs in California to date suggest that much of the savings would probably accrue to local government. The expansion of county mental health services as proposed in this measure would probably result in savings on state prison and county jail operations, medical care, homeless shelters, and social services programs. The extent of these potential savings to the state and local agencies is unknown, but could amount to as much as the low hundreds of millions of dollars annually on a statewide basis.

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