PROPOSITION

63

Mental Health Services Expansion, Funding. Tax on Personal Incomes Above $1 Million. Initiative Statute.

OFFICIAL TITLE AND SUMMARY

Prepared by the Attorney General

Mental Health Services Expansion, Funding.
Tax on Personal Incomes Above $1 Million. Initiative Statute.

- Provides funds to counties to expand services and develop innovative programs and integrated service plans for mentally ill children, adults and seniors.
- Requires state to develop mental health service programs including prevention, early intervention, education and training programs.
- Creates commission to approve certain county mental health programs and expenditures.
- Imposes additional 1% tax on taxpayers' taxable personal income above $1 million to provide dedicated funding for expansion of mental health services and programs.
- Prohibits state from decreasing funding levels for mental health services below current levels.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Additional state revenues of about $275 million in 2004–05 (partial year), $750 million in 2005–06, $800 million in 2006–07, and probably increasing amounts annually thereafter, with comparable annual increases in expenditures by the state and counties for the expansion of mental health programs.
- Unknown state and local savings from expanded county mental health services that partly offset the cost of this measure, potentially amounting to as much as the low hundreds of millions of dollars annually.

ANALYSIS BY THE LEGISLATIVE ANALYST

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.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

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, where feasible, 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.

For text of Proposition 63 see page 102.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

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,

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

$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.

For text of Proposition 63 see page 102.

PROP 63

MENTAL HEALTH SERVICES EXPANSION, FUNDING. TAX ON PERSONAL INCOMES ABOVE $1 MILLION. INITIATIVE STATUTE.

ARGUMENT in Favor of Proposition 63

Almost 40 years ago, California emptied its mental hospitals, promising to fully fund community mental health services. That promise is still unfulfilled.

Hundreds of thousands of children and adults in California suffer from severe mental illnesses and cannot get the treatment they need. These children fail in school. Adults end up on the streets or in jail.

Proposition 63:

- Provides comprehensive mental health care for children, adults, and seniors.
- Helps individuals and families without insurance, or whose insurance doesn't pay for needed services.
- Includes mental health treatment, general medical care, housing, job training, and prescription drugs.
- *Is paid for by a 1% tax on income over $1 million per year—people earning less than $1 million per year won't pay anything extra.*
- Supports innovative programs that are proven to work.
- Requires annual oversight and accountability procedures to ensure funds are properly spent.

Proposition 63 also provides prevention services to help children, adults, and seniors get care *before* a mental illness becomes disabling.

The nonpartisan California Legislative Analyst concludes that Proposition 63 could save taxpayers hundreds of millions of dollars annually by reducing expenses for medical care, homeless shelters, and law enforcement.

CALIFORNIA'S DOCTORS AND NURSES SUPPORT PROPOSITION 63 BECAUSE TREATMENT WORKS

Mental illness does not have to be disabling. With proper care, children can return to a normal life and enjoy success in school. Adults and seniors can regain their dignity and find productive work.

Mental illness often goes untreated because people lack access to care. State funding covers only a fraction of those needing help. Families whose loved ones begin treatment often find their insurance inadequate.

Proposition 63 provides effective treatment for all of those being denied care. It gives medical professionals the tools to save lives.

POLICE CHIEFS SUPPORT PROPOSITION 63 BECAUSE IT WILL MAKE CALIFORNIA SAFER

Twenty percent of a police officer's time is spent dealing with people with mental illnesses. One in three people who are homeless are on the streets only because of untreated mental illness.

Our prisons and jails are full of thousands of people with mental illnesses who would not be there if they had been offered treatment. We should provide care *before* people end up on the streets, or behind bars. Then our police officers can focus on criminals, instead of people who are ill and need help.

CALIFORNIA'S TEACHERS SUPPORT PROPOSITION 63 BECAUSE IT WILL HELP CHILDREN SUCCEED IN SCHOOL AND IN LIFE

It's heartbreaking to watch children fall into mental illness. They struggle in school, unable to focus on learning. Left untreated, many withdraw from teachers, friends, and family. Finding it difficult to "fit in" at school, many drop out. *All of these consequences are preventable.*

Proposition 63 provides for early intervention and badly needed services. It will help children avoid mental illness, or cope with its effects, and get back on track to learning.

MANY OF US KNOW SOMEONE WHO HAS SUFFERED FROM A SEVERE MENTAL ILLNESS. IT IS TIME TO STOP THE SUFFERING.

PLEASE VOTE YES ON PROPOSITION 63.

For more: www.CampaignForMentalHealth.org

DEBORAH BURGER, *President*
California Nurses Association

CHIEF CAM SANCHEZ, *President*
California Police Chiefs Association

BARBARA KERR, *President*
California Teachers Association

REBUTTAL to Argument in Favor of Proposition 63

We must get the mentally ill off the streets and get them the treatment they need. For too long, those who suffer have been left without hope and without help.

We agree!

However, we are not swayed by those who would use nice words to pass a shortsighted measure that is *guaranteed* to cause long-term failure. The problems the mentally ill face require a REAL PLAN for the future; *not* promises of funding tied to dangerously volatile income sources, which can vanish in a heartbeat.

We all remember the economic bubble that burst in California a few years ago. Budget surpluses abounded, but *suddenly without warning,* the high incomes and windfalls disappeared—*and took important tax dollars along with them!* Overnight, looming deficits and program cuts appeared. This measure follows the *same risky path,* pinning itself to those very incomes. Such folly is unreliable and irresponsible.

TAXPAYER-FUNDED INTERESTS pushing this new bureaucracy claim that similar programs have "demonstrated their effectiveness" in terms of "providing services," but that is *not the same thing as reducing mental illness or manifestations of it.* Nor does *any* evidence show that state and local costs have declined as a result.

We need to do something about mental illness, and reject *fake solutions* like Proposition 63 that only postpone serious fixes for later. This *sleight-of-hand substitute* is a feel-good proposal that doesn't plan for the future and doesn't make sense. Our children and families require better.

We urge you to vote NO on 63.

THE HONORABLE TIM LESLIE, *Assemblyman*
California State Legislature

DAVID YOW, *Member*
Citizens for a Healthy California

Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.

MENTAL HEALTH SERVICES EXPANSION, FUNDING. TAX ON PERSONAL INCOMES ABOVE $1 MILLION. INITIATIVE STATUTE.

PROP 63

ARGUMENT Against Proposition 63

Proposition 63 is a *flawed attempt* to fix a serious problem. Californians are compassionate, and that's why we care about making sure that government is both responsible AND effective. This tax initiative, however, is neither. It promises wonderful things, but the *benefit is much smaller* and the *price tag much larger* than proponents are telling you.

This new law forces the Legislature to continue funding existing mental health programs at their current levels, *regardless of effectiveness or efficiency*. While United States Department of Justice investigations have found severe abuses within California's Department of Mental Health, proponents suggest we expand that system rather than first resolving the problems it already faces.

As if that weren't bad enough, Proposition 63 pins the hopes and needs of thousands of Californians upon a NARROWLY DRAWN SEGMENT OF A FEW TAXPAYERS' INCOMES. That is not wise, and it is not safe. Of course, most people aren't millionaires, but when those required to pay this tax end up leaving the state—the way they have been in increasing numbers since the Gray Davis days—they will take their tax dollars with them. *The very same tax dollars this program needs to survive*. That leaves the rest of us stuck trying to pay the tab, and helplessly watching other important services get cut to make up the difference.

On paper, this plan promises a lot. Helping the mentally ill sounds good. However, the measure itself is fatally flawed, because its funding structure is too narrowly drawn and *highly vulnerable to even slight economic changes*. So, you see, the failure to provide a long-term solution for mental health needs in our state will only create even *bigger problems* that need to be solved . . . and leave us with the original challenges, as well.

It is compassionate to help, but this plan is the *wrong way to do it*. It is time for real reform—not irresponsible measures like this one that merely substitute one broken bureaucracy for another. All Californians deserve a government that plans for the future, not one that threatens it with a nightmarish, risky scheme that will leave us with larger problems than ever before.

Join many Californians from all walks of life, including community leaders, state legislators, health care advocates, elected city officials, and others who care about the people in our communities in voting NO on this *well-intended but short-sighted* initiative. In the long run, this backward plan will only hurt those it's meant to help.

DR. WILLIAM ALLEN, *Professor*
UCLA Department of Economics
THE HONORABLE RAY HAYNES, *Assemblyman*
California State Legislature
LEW UHLER, *President*
National Tax Limitation Committee

REBUTTAL to Argument Against Proposition 63

PROPOSITION 63 HELPS EVERYONE IN CALIFORNIA.

Treating mental illness doesn't just mean helping individuals.

It means better schools and businesses, and safer communities.

Successful treatment keeps adults healthy, employed, and self-sufficient. It helps children stay and succeed in school. Police can focus on crime, instead of untreated mental illness.

PROPOSITION 63 EXPANDS A PROGRAM THAT WORKS.

After decades of neglecting mental illness, California began an experimental, community-based mental health program five years ago. It helps teenagers and adults get the care they need from one place. Special community teams offer treatment, medicines, housing, job training, and other assistance.

The program has been studied extensively. (See www.AB34.org.) The results show that three times more people found employment than had worked previously. Those enrolled had a 66% reduction in hospital days, and an 81% reduction in jail days.

A panel of nationally recognized experts calls this program a model for the nation.

Right now, the program is small, reaching *fewer than 10%* of those who could benefit. Thousands are turned away.

Proposition 63 makes this new model program available to the thousands now turned away.

PROPOSITION 63 REQUIRES STRICT ACCOUNTABILITY.

Under Proposition 63:

- Funding goes only to these proven, new programs.
- Bureaucrats can't redirect the funding.
- An oversight panel of independent, unpaid members supervises expenditures.
- To ensure accountability, they can cut off programs that aren't effective.

Proposition 63 only taxes individuals on their taxable, personal income over $1 million. The tax is just 1%. It's even deductible from federal taxes.

Please vote YES on Proposition 63.

CARLA NIÑO, *President*
California State PTA
ARETA CROWELL, *President*
Mental Health Association in California
DR. DANA WARE, *President*
California Academy of Family Physicians