

**Proposition 63.
Mental Health Services Expansion.
Tax on Incomes Above \$1 Million.**

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented To:

Assembly Committees on Health, and Revenue and Taxation;

Senate Committees on Health and Human Services,

Revenue and Taxation, and

Select Committee on Developmental Disabilities and Mental Health





New Tax Established by Proposition 63



New Tax Established. This measure would establish a surcharge of 1 percent on the portion of a taxpayer's taxable income that exceeded \$1 million beginning January 2005.

- Upwards of 30,000 taxpayers would be directly affected by the new tax.
- Taxpayers with taxable incomes of \$1 million or more receive about 17 percent of AGI and pay about 23 percent of total PIT revenues.
- New tax would increase the percentage of PIT revenues paid by these taxpayers to approximately 25 percent.



Revenues Deposited in New Fund. The State Controller would transfer estimated amounts of the surcharge revenues into a new state special fund, named the Mental Health Services Fund.

- Amounts deposited into the fund would be adjusted later to reflect the revenues actually received from the tax surcharge.
- Given the volatility of this revenue source, these adjustment amounts could be substantial in some years.
- New tax would not be subject to indexing.



Major Provisions of Proposition 63

- How the Funding Would Be Spent.*** Revenues deposited in the new fund would be used to create new county mental health programs and to expand some existing programs.
- County Plans.*** Each county would submit for state review and approval a three-year plan, to be updated annually, for the delivery of mental health services within its jurisdiction. Up to 5 percent of funding could be used for county planning activities.
- Program Administration and Oversight.*** The Department of Mental Health would have the lead state role in implementing Proposition 63 and allocating funding through contracts with counties. A new Mental Health Services Oversight and Accountability Commission would review county plans and approve certain expenditures. Up to 5 percent of funding could be used to offset state implementation costs.
- Other Fiscal Provisions.*** The new revenues could be used only to expand mental health services and not for other purposes. Specifically, the state and counties would be prohibited from reducing General Fund support, entitlements to services, and formula distributions of funds below 2003-04 levels. The state would 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 unless the state provided adequate funding to fully compensate for the additional costs or financial risk.



Programs Financed With Proposition 63 Revenues

- 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.



LAO Estimate of Fiscal Effects Of Proposition 63

- 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 state and counties would incur additional expenditures for mental health programs basically mirroring the additional revenues generated by the surcharge.

- Reduction in Support Prohibited.** The provisions of this measure prohibiting the state from reducing financial support and restricting other changes in mental health programs 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, potentially amounting 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.

- Additional Federal Funds.** The expansion of county mental health services provided under this proposition 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 measure, but could potentially exceed \$100 million annually on a statewide basis.



LAO Estimate of Fiscal Effects Of Proposition 63

(Continued)

- Partially Offsetting Savings.*** State and national studies have indicated that mental health programs can generate savings to state and local governments that partly offset their additional cost. The expansion of mental health services 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 is unknown but could amount to as much as the low hundreds of millions of dollars annually on a statewide basis.