

AUGUST 22, 2023

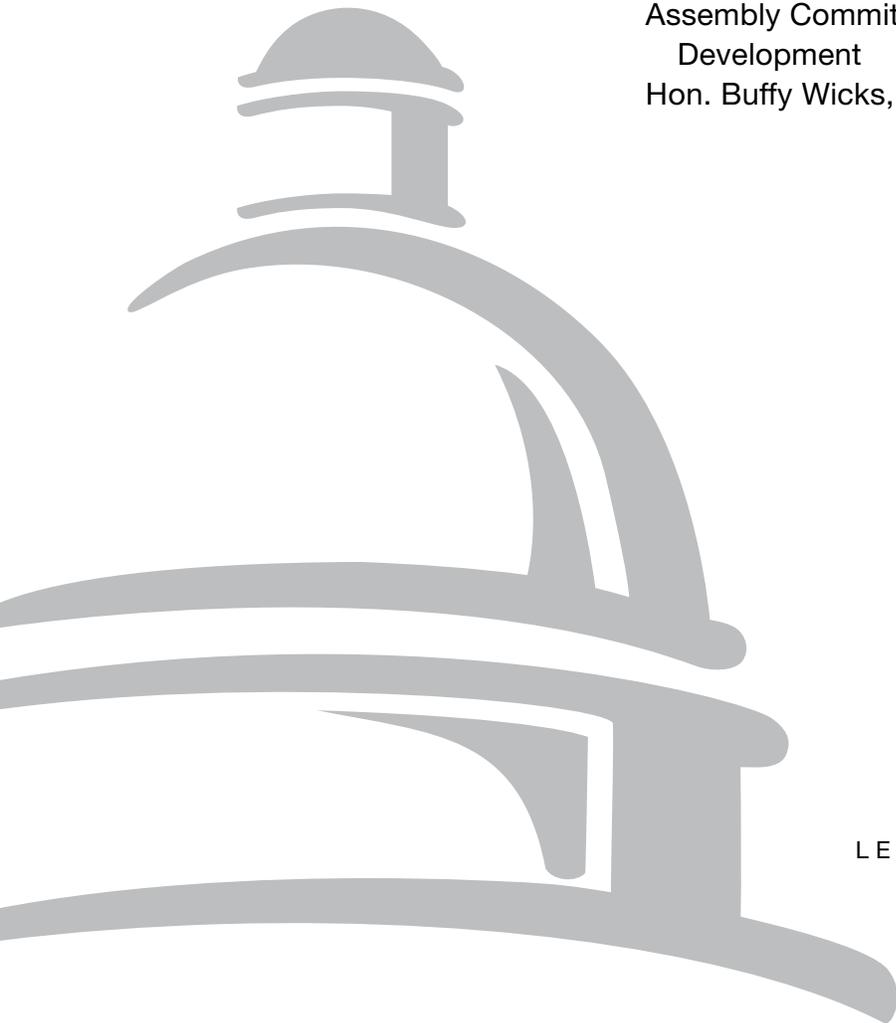
# Proposed Bond to Fund Behavioral Health Facilities and Veterans Housing

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PRESENTED TO:

Assembly Committee on Health  
Hon. Jim Wood, Chair

Assembly Committee on Housing and Community  
Development  
Hon. Buffy Wicks, Chair



LEGISLATIVE ANALYST'S OFFICE

## Key Takeaways

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This handout summarizes a post in our [series](#) of analyses on the various components of the Governor’s behavioral health modernization proposal. The proposal is currently moving through the Legislature in two companion bills— SB 326 (Eggman) and AB 531 (Irwin). This handout focuses on the latter bill, which proposes a \$4.7 billion bond for behavioral health facilities and housing for veterans. The handout also includes contextual information about existing state programs requested by committee staff. Our key takeaways are outlined below.

### ***Bond Appears Broadly Reasonable and Worthy of Consideration...***

The state has previously funded housing and homelessness programs for veterans and others with behavioral health needs. Similarly, the state has recently created the Behavioral Health Continuum Infrastructure Program (BHCIP) to fund additional behavioral health facilities. The shortage in both housing and behavioral health facilities is well documented and a pressing need. Thus, in our view, the Governor’s proposed bond is broadly reasonable.

### ***...But Also Raises Questions for Legislative Consideration.***

Nevertheless, the proposal raises questions for the Legislature’s consideration:

- How would local governments fund ongoing costs to support permanent housing?
- To what extent do recent budget augmentations address the estimated shortage of behavioral health facilities?
- What about behavioral health facilities for children and adolescents?
- What about the shortage of acute psychiatric beds?
- Will new behavioral health facilities reach hard-to-place populations?



## Key Takeaways

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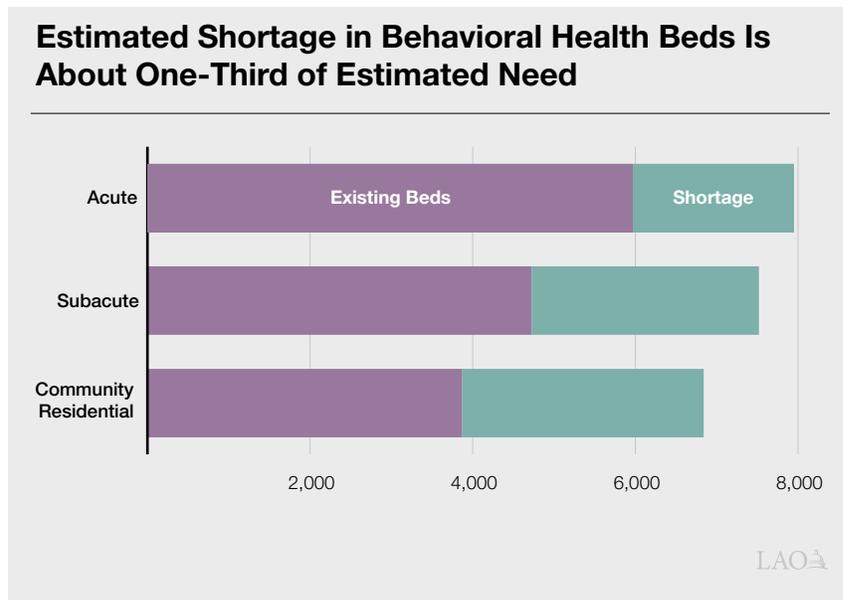
***Recommend Increased Legislative Role in Bond Implementation and Oversight.*** Should the Legislature agree that this proposal is a priority, we recommend amending the statutory proposal to provide more direction to the administration and ensure an ongoing legislative role in the bond's implementation. In particular, we recommend the following actions.

- Make expenditure of the bond funds for programmatic purposes subject to appropriation in the annual budget act rather than the proposed continuous appropriation.
- Establish an increased role—either by providing more direction in the statute or tabling certain key decisions for the second year of the legislative session—in determining key implementation details.
- Establish oversight and reporting requirements to gauge the extent to which the bond is meeting legislative goals now and in the future.



# Public Community Behavioral Health Services

- Counties are primarily responsible for funding and delivering community-based behavioral health services for low-income individuals with the highest service needs.
- Individuals receive treatment in many facility types across the behavioral health continuum.
- Counties can use a variety of funding sources for community behavioral health facilities, including:
  - Realignment funds (dedicated vehicle license fee and sales tax revenues).
  - Revenues from the Mental Health Services Fund.
  - Federal funding accessed through Medi-Cal.
- Recent RAND Corporation study estimated shortage of behavioral health beds in California.



# Homelessness Among Veterans and Others With Behavioral Health Needs

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- ***Many Individuals Experiencing Homelessness Also Have Behavioral Health Needs...*** Although housing affordability is the most significant factor in the state's homelessness crisis, there are many individuals experiencing homelessness who also have behavioral health needs. According to the U. S. Department of Housing and Urban Development's 2022 point-in-time count:
  - 23 percent (39,700) of the 171,500 people experiencing homelessness in California suffered from severe mental illness.
  - 21 percent (36,000) suffered from a chronic substance use disorder.
  - 6 percent (10,400) of people experiencing homelessness in California were veterans (over 70 percent of these veterans experienced unsheltered homelessness).
- ***...And Could Benefit From Receiving Housing Support Paired With Behavioral Health Services.*** For individuals who both experience homelessness and have behavioral health needs, behavioral health services could be an essential component of addressing their homelessness.



# State Housing and Homelessness Programs for Veterans and Others With Behavioral Health Needs

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The state administers various housing and homelessness programs for veterans and others experiencing or at risk of homelessness with behavioral health needs. In the following section, we provide implementation updates for the following key programs:

- BHICP.
- Homekey Program.
- No Place Like Home (NPLH) Program.
- Veterans Housing and Homelessness Prevention (VHHP) Program.



# Behavioral Health Continuum Infrastructure Program

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**Program Description.** The 2021-22 budget package included \$1.7 billion one-time General Fund (\$2.2 billion total funds) over 2021-22 and 2022-23 for the Department of Health Care Services (DHCS) to award grants to develop new behavioral health treatment facilities. The grants are available to cities, counties, tribes, nonprofits, and corporations. Grant funding can be used to construct, acquire, or renovate facilities, activities that are generally expected to occur over multiple years. Grants provided under this program fund a variety of community behavioral health facility types to treat individuals with varying levels of behavioral health needs.

**Awarding of BHCIP Grants.** To date, five of the six rounds of BHCIP funding totaling \$1.6 billion have been awarded as follows:

- \$145 million for mobile crisis infrastructure.
- \$16 million for county and tribal planning grants.
- \$519 million for “launch ready” projects.
- \$481 million for projects targeted at children and youth.
- A general-purpose round totaling \$480 million.

The 2023-24 budget package delays the remaining \$481 million planned for round six to 2024-25 (\$240 million) and 2025-26 (\$240 million). The sixth round of awards are intended to address remaining needs based on an assessment conducted by DHCS.

**Status and Preliminary Findings.**

- Round 1 of BHCIP awarded funds to create or expand 109 mobile crisis teams.
- Round 2 provided planning grants of up to \$150,000 to 50 tribe and county grantees.
- Rounds 3 through 5 made 129 awards expected to add roughly 2,500 beds across all facility types.
- Over half of the awards were made to nonprofit corporations, with counties receiving another one-third of awards.



# Homekey Program

**Program Description.** Homekey, administered by the Department of Housing and Community Development (HCD), provides grants to local public agencies and tribes in order to acquire and rehabilitate properties like motels and commercial properties for use as permanent or interim housing. The program aims to expand housing for persons experiencing or at risk of homelessness and who are inherently impacted by or at increased risk for medical diseases or conditions due to the COVID-19 pandemic or other communicable diseases

## Homekey Overview

Total Amount Approved <sup>a</sup>	Total Amount Awarded	Total Remaining Funding	Next Funding Release Date	Reporting Requirement
\$3.7 billion: <ul style="list-style-type: none"> <li>• \$800 million in 2020-21 (Round 1)</li> <li>• \$1.6 billion in 2021-22 (Round 2)</li> <li>• \$1.3 billion in 2022-23 (Round 3)</li> </ul>	\$2.8 billion	\$810 million <sup>b</sup>	Applications for \$736 million from Round 3 closed July 2023, award notification pending. Remaining \$75 million for tribes, targeted for release later in 2023.	Annual report due January 31 to HCD with fiscal and programmatic data. HCD last packaged this data into a public report released April 2021. However, a public online dashboard also makes information readily available.

<sup>a</sup> All fund sources.  
<sup>b</sup> Reflects remaining HomeKey Round 3 funding, as some was accelerated for use in 2021-22 given high demand for funding.



# Homekey Program

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## Awarding of Homekey Grants.

### Homekey Awards

(Dollars in Millions)

Regions	Round 1 Awards		Round 2 Awards		Totals Across Round 1 and Round 2	
	Funding	Units Created	Funding	Units Created	Total Funding	Total Units Created
Los Angeles County	\$268	1,814	\$679	2,218	\$947	4,032
Bay Area	275	1,627	609	2,106	883	3,733
San Joaquin Valley	63	765	195	825	258	1,590
Southern California	66	592	189	688	255	1,280
Sacramento Area	39	331	92	353	131	684
Central Coast	23	217	101	348	124	565
San Diego County	38	332	12	41	50	373
Balance of State	26	233	78	284	104	517
<b>Totals</b>	<b>\$798</b>	<b>5,911</b>	<b>\$1,955</b>	<b>6,863</b>	<b>\$2,753</b>	<b>12,774</b>

## Status and Preliminary Findings.

### Homekey Overall Accomplishments<sup>a</sup>

	Round 1	Round 2 <sup>b</sup>	Total
Projects Funded	94	116	210
Total Units	5,911	6,863 <sup>c</sup>	12,774
Permanent Units	2,320	4,147	6,467
Interim Units	1,049	1,671	2,720
Interim-to-Permanent Units	2,542	960	3,502
Total Awards	\$798 million	\$1.96 billion	\$2.75 billion
Cost Per Unit <sup>d</sup>	\$129,254	\$243,751	\$189,672

<sup>a</sup> Reflects project impact from Homekey as of February 1, 2023. Projects can receive multiple sources of funding.

<sup>b</sup> Includes funds accelerated from 2022-23 into Round 2. Funding all eligible applications in 2021-22 prevented these applicants from having to reapply in the subsequent round of funding release.

<sup>c</sup> Includes 85 manager units that are not represented in unit type breakout below.

<sup>d</sup> Reflects the Homekey contribution per unit.



## No Place Like Home Program

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**Program Description.** The NPLH Act of 2018 (Proposition 2) authorized \$2 billion in bonds to construct new and rehabilitate existing permanent supportive housing for people who need mental health services and are experiencing homelessness or are at risk of homelessness. The housing support provided through NPLH is paired with mental health services. All bond funding has been allocated as of August 2022. The bonds will be repaid over time using Mental Health Services Act funds.

**Snapshot of NPLH Status and Anticipated Outcomes as of August 2022.**

- \$1.9 billion awarded to counties.
- 247 projects funded.
- 7,852 NPLH-assisted housing units anticipated.
- 119 projects are under construction.
- 30 projects have been completed.
- 498 units have units have been completed and are occupied.



# Veterans Housing and Homelessness Prevention Program

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**Program Description.** The Veterans Housing and Homeless Prevention Bond Act of 2014 (Proposition 41) restructured \$600 million in existing general obligation bonds for veteran multifamily rental housing. The funding is administered through HCD's VHHP Program for acquisition, construction, rehabilitation, and preservation of affordable multifamily housing for veterans and their families. (The restructuring was necessary because \$900 million in general obligation bonds authorized in 2008 for veteran homeownership did not experience the demand that was projected before the housing downturn during the Great Recession.)

## **Awarding of VHHP Grants.**

<b>VHHP Awards<sup>a</sup></b> (Dollars in Millions)				
<b>Regions</b>	<b>Funding</b>	<b>Projects</b>	<b>VHHP Units</b>	<b>Total Project Units</b>
Bay Area	\$89.1	15	531	997
Los Angeles	200.9	37	1,219	2,602
Inland/Orange	64.8	10	411	708
San Diego	34.5	5	272	315
Other	89.4	21	625	1,042
<b>Totals</b>	<b>\$478.7</b>	<b>88</b>	<b>3,058</b>	<b>5,664</b>

<sup>a</sup> Reflects awards through December 2021.  
VHHP = Veterans Housing and Homelessness Prevention Program

**Status and Preliminary Findings.** HCD has made additional awards since December 2021. HCD indicates that, of the \$600 million that was restructured for VHHP funding, \$62 million remains available. According to HCD, it has accepted applications for this remaining VHHP funding from Proposition 41. The applications HCD has received have collectively requested \$109 million in funding, more than is available for award. Once HCD selects awardees, Proposition 41 funds are expected to be exhausted.



## State Infrastructure Financing

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- ***Two Ways the State Usually Pays for Infrastructure Projects.***
  - Pay-as-You-Go.
  - General Fund-Supported Bonds.
- ***When and Why the State Uses Bonds to Finance Infrastructure Projects.*** A main reason for issuing bonds to finance infrastructure projects is that infrastructure typically provides taxpayers with a public benefit over many years. Thus, bonds can therefore promote intergenerational equity by spreading costs across generations of taxpayers roughly proportionate to the benefits that they receive.
- ***The Costs of Bond Financing.*** The state pays more for a project funded by bonds than on a pay-as-you-go basis because of the interest costs. The amount of additional cost depends primarily on the interest rate and the time period over which the bonds have to be repaid.
- ***About \$71 Billion in Principal Outstanding From Issued General Obligation Bonds.***
- ***About \$25 Billion in Bonds Authorized by Voters but Not Yet Sold to Investors.***
- ***Annual Debt Service Currently Represents Less Than 3 Percent of General Fund Spending, a Low Point in Recent History.***



# Behavioral Health Bond Proposal

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***The Proposed \$4.7 Billion Bond for Behavioral Health Beds and Veteran’s Housing.*** The Governor proposes a \$4.7 billion general obligation bond for the March 2024 ballot to construct or rehabilitate up to 10,000 behavioral health beds in residential settings and housing units for veterans and other individuals experiencing or at risk of homelessness. The bond proceeds would be used as follows:

- ***Up to \$865 Million Dedicated to Housing Grants.*** The proposal sets aside *up to* \$865 million for HCD to award grants to construct and rehabilitate housing for veterans and others who are experiencing or at risk of homelessness and are living with a behavioral health challenge. HCD would not be required to award grants on a competitive basis.
- ***Remainder Would Be Used for Beds in Community-Based Treatment Settings and Residential Care Settings.*** Bond proceeds remaining after distribution to HCD—*at least* \$3.8 billion—would be used for DHCS to award grants to construct and rehabilitate beds in unlocked, voluntary, community-based treatment and residential care settings. The bond would not fund acute-care psychiatric facilities. DHCS could choose whether to require matching funds or real property as a condition of receiving a grant.



# Assessment and Issues for Legislative Consideration

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## Bond Appears Broadly Reasonable and Worthy of Consideration...

- ***Proposal Addresses Well-Documented Need That Is a Legislative Priority.*** The state has previously funded housing and homelessness programs for veterans and others with behavioral health needs. Similarly, the state has recently created BHCIP to fund additional behavioral health facilities. The shortage in both housing and behavioral health facilities is well documented and a pressing need. Thus, in our view, the Governor’s proposed bond is broadly reasonable.

## ...But Also Raises Questions for Legislative Consideration

- How would local governments fund ongoing costs to support permanent housing?
- To what extent do recent budget augmentations address the estimated shortage of behavioral health facilities?
- What about behavioral health facilities for children and adolescents?
- What about the shortage of acute psychiatric beds?
- Will new behavioral health facilities reach hard-to-place populations?

## Weighing Proposal Against Other Funding Priorities

- No one “right” level to spend on infrastructure.
- Proposal to fund behavioral health facilities with general obligation bonds is a novel approach.
- Consider where proposal ranks among bonds currently in legislative process.
- Consider reprogramming recent commitments.



# Assessment and Issues for Legislative Consideration

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(Continued)

## Legislative Role in Bond Implementation and Oversight

- ***Governor’s Proposal Would Give Administration Broad Latitude in Implementing the Bond.*** While the administration generally has a broad plan for administering the bond funds, (1) many key details are missing from the statutory proposal; (2) the proposal defers to the administration key decisions; and (3) the proposal continuously appropriates the bond proceeds, meaning the administration would not have to seek further authority from the Legislature to award grants.
- ***Important for Legislature to Have Active Role in Implementation.*** The Legislature will want to have an ongoing and active role in monitoring the bond implementation and potentially adjusting the focus of the bond to ensure the dollars are targeted at the areas of highest need.
- ***Recommend Increased Legislative Role in Bond Implementation and Oversight.*** Should the Legislature decide that the proposal is a priority, we recommend amending the statutory proposal to provide more direction to the administration and ensure an ongoing legislative role in the bond’s implementation. In particular, we recommend the following actions.
  - Make expenditure of the bond funds for programmatic purposes subject to appropriation in the annual budget act rather than the proposed continuous appropriation.
  - Establish an increased role—either by providing more direction in the statute or tabling certain key decisions for the second year of the legislative session—in determining:
    - The types of entities eligible for grants.
    - The methodology for allocating grant funding.
    - The extent to which bond proceeds should be spent on veterans housing versus behavioral health facilities.
    - Any required legislative approval to transfer funds between the HCD and DHCS administered portions of the bond.



## Assessment and Issues for Legislative Consideration

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*(Continued)*

- Whether matching funds or real property should be required as a condition of receiving grants for behavioral health facilities and whether HCD should be required to award grants on a competitive basis.
- Establish oversight and reporting requirements to gauge the extent to which the bond is meeting legislative goals now and in the future.

