SUMMARY

This brief analyzes the Governor’s three major behavioral health spending proposals and two proposed behavioral health budget solutions involving delays in planned spending.

**Recommend Only Providing Funding for CARE Program in 2023-24 and Require Reporting to Allow for Robust Assessment of Ongoing Funding Requirements.** As a part of implementing the Community Assistance, Recovery, and Empowerment (CARE) program, the Governor proposes $22.6 million General Fund in 2023-24, increasing to $114.6 million General Fund by 2025-26 and ongoing, for the Department of Health Care Services (DHCS) to provide training, collect data, and distribute grants to counties. Due to the significant uncertainty in estimating the level of program participation and costs in future years, we recommend that the Legislature only approve the first year of requested funding and require regular data reporting from courts, counties, and DHCS to inform the ongoing costs of the program.

**Proposal to Assist County Transition to New Payment System Reasonable.** Beginning July 1, 2023, counties will move to a new process for receiving Medicaid funds for behavioral health-related services. While less administratively burdensome, the new process requires county funds to be provided to the state in order to draw down federal matching funds, which may result in county cash-flow constraints. The Governor’s proposal to provide $375 million General Fund on a one-time basis is a reasonable way to assist counties make the transition to the new payment system.

**More Information Needed on Community-Based Continuum Demonstration Proposal.** The Governor proposes $314 million General Fund ($6.1 billion total funds) over five years for a new program requiring federal approval—the California Behavioral Health Community-Based Continuum (CalBH-CBC) Demonstration—that would allow counties to receive federal reimbursement for mental health services provided in settings in which federal funding is currently unavailable. While the proposal appears to fit within the state’s broader efforts on expanding access to behavioral health services, much information is lacking to fully evaluate the administration’s proposal. We recommend that the Legislature request information about the administration’s multiyear spending plan and assumptions on the net fiscal impact to the state and counties of the proposal in upcoming budget hearings.

**Proposal to Delay Continuum Infrastructure Funding Reasonable; Defer Action on Housing Funding Until May Revision.** To help address this year’s budget shortfall, the Governor proposes to delay $481 million in previously approved funding for the Behavioral Health Continuum Infrastructure Program (BH-CIP). Given the progress made so far in awarding funding for this program, and that the delay may allow for remaining program funds to better meet outstanding needs in what could be a prolonged period of constrained budget resources, the Governor’s proposed delay is reasonable. The Governor also proposes to delay $250 million in funding for the Behavioral Health Bridge Housing (BHBH) program. Because full implementation details of BHBH are not yet available, the Legislature may wish to defer action on this proposed delay until the May Revision, at which time the Legislature could better evaluate the extent to which BHBH continues to align with its priorities.
INTRODUCTION

This brief analyzes the Governor’s three major behavioral health spending proposals and two proposed behavioral health budget solutions involving delays in planned spending. The spending proposals that we analyze include:

1. $22.6 million General Fund in DHCS to implement the CARE program for the first cohort of counties (this is a component of a $52.4 million proposal that also includes spending in the Judicial Branch);
2. $375 million one-time General Fund to help counties with cash-flow constraints resulting from the California Advancing and Innovating Medi-Cal (CalAIM) behavioral health payment reform; and
3. $314 million General Fund ($6.1 billion total funds) over five years for the CalBH-CBC Demonstration, which would enable the state to draw down federal matching funds for an expanded list of services provided to adults and children with acute mental health needs and is a component of CalAIM.

We then analyze two delays in planned spending for BH-CIP and BHBH programs that the Governor proposes to help close the budget shortfall.

CARE PROGRAM

Background

CARE Program. Chapter 319 of 2022 (SB 1338, Umberg) established the CARE program—a new judicial process to compel individuals who meet certain criteria to engage with various behavioral health-related services. These criteria include the person being over the age of 18 as well as currently experiencing both a severe mental illness and having a diagnosis of schizophrenia or other psychotic disorders. An individual (called a “respondent”) can be referred to the program by certain qualified members of the community (including family members and licensed behavioral health professionals), and a court assesses whether the respondent meets the specified criteria for admission to the program. If the court determines that the respondent meets these admission criteria, the court may order the respondent to follow an individualized “CARE plan.” (In ordering a CARE plan, the court is required to make a finding that the respondent is either “unlikely to survive safely in the community without supervision and the person’s condition is substantially deteriorating” or “in need of services and supports in order to prevent a relapse or deterioration that would likely result in grave disability.”) These plans consist of the provision of behavioral health care, stabilization medications, housing, and other supportive services, which are expected to be delivered by counties.

Counties that fail to comply with their obligations under the CARE plan could face fines. The penalty revenue would be reallocated to the county that paid the fine for purposes of serving individuals who would qualify for a CARE plan.

CARE Program Implementation Plan and Recent Developments. Senate Bill 1338 specified that one group of counties (“Cohort 1”)—which included Glenn, Orange, Riverside, San Diego, San Francisco, Stanislaus, and Tuolumne Counties—are generally required to begin CARE program operations no later than October 1, 2023. All remaining counties (“Cohort 2”) are generally required to begin CARE program operations no later than December 1, 2024. In January 2023, Los Angeles County—a member of Cohort 2—announced plans to implement the CARE program by December 1, 2023, a year earlier than required. Additionally, in January 2023, a group of disability and civil rights advocates filed a lawsuit with the California Supreme Court challenging the constitutionality of SB 1338 and seeking to block its implementation.

Initial CARE Program Funding. The 2022-23 budget package included $77.2 million General Fund for DHCS, $5 million General Fund for the California Health and Human Services Agency, and $6.1 million General Fund for the judicial branch to administer the program in 2022-23.
funding provided to the health entities was one time in nature.) Of the $77.2 million for DHCS, $57 million was provided directly to counties for the planning and implementation of the program. Of this amount, $26 million was allocated proportionally (based on population) to Cohort 1 counties to prepare for earlier implementation. The remaining $31 million was provided proportionately to all counties (Cohorts 1 and 2).

Proposal

Multiyear Funding Proposal Across Judicial Branch and Health Entities. Figure 1 shows previously approved 2022-23 funding and proposed funding for the CARE program to support state and county implementation costs. In 2023-24, the administration proposes a total of $52.4 million General Fund—$22.6 million in DHCS and $29.9 million in the judicial branch. Funding would increase to $214.6 million annually beginning in 2025-26. This section focuses on the DHCS and county responsibilities and costs in implementing the CARE program. We discuss the judicial branch responsibilities and costs in a separate report, The 2023-24 Budget: Judicial Branch Budget Proposals.

DHCS-Specific Costs. Around half of the total proposed funding in the Governor’s multiyear funding plan for the CARE program would be for DHCS to provide training, collect data, and distribute grants to counties for CARE program implementation.

- **Grants to Counties.** The proposal includes $16.5 million in 2023-24, increasing to $108.5 million in 2025-26 and ongoing, for grants to counties. Half of the funding would be for the costs associated with performing clinical evaluations. The other half of the funding would cover county staff time in CARE program court proceedings. The administration states that the funding proposal does not include the cost of services and supports ordered under CARE plans. Counties would be expected to pay for those services with existing funding streams.

- **Data Collection and Training.** The proposal also includes $5 million in 2023-24 and ongoing for DHCS to provide optional training to, and collect trends and other data on, “supporters” as required in SB 1338. Supporters are volunteers who assist the respondent in all aspects of the CARE program, help to develop a CARE plan, and ensure that respondents can make informed choices and maintain autonomy.

Additionally, the Governor’s budget includes $1.1 million in ongoing funding to DHCS that was approved in the 2022-23 budget to provide technical assistance and oversight for counties on the implementation of the CARE program.

![Figure 1](image-url)

**Summary of Total Proposed CARE Program Funding**

<table>
<thead>
<tr>
<th>Entity</th>
<th>Purpose</th>
<th>2022-23</th>
<th>2023-24</th>
<th>2024-25 and Ongoing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Judicial Branch</td>
<td>Court Operations</td>
<td>$5.9</td>
<td>$23.8</td>
<td>$50.6</td>
</tr>
<tr>
<td>judicial Branch</td>
<td>Legal Representation</td>
<td>0.3</td>
<td>6.1</td>
<td>21.8</td>
</tr>
<tr>
<td><strong>Totals, Judicial Branch</strong></td>
<td></td>
<td>$6.1</td>
<td>$29.9</td>
<td>$72.4</td>
</tr>
<tr>
<td>Health Entities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CalHHS</td>
<td>Training</td>
<td>$5.0</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>DHCS</td>
<td>Training, Data Collection, and Other Activities</td>
<td>20.2</td>
<td>$6.1</td>
<td>$6.1</td>
</tr>
<tr>
<td>DHCS</td>
<td>County Grants</td>
<td>57.0</td>
<td>16.5</td>
<td>66.5</td>
</tr>
<tr>
<td><strong>Totals, Health Entities</strong></td>
<td></td>
<td>$82.2</td>
<td>$22.6</td>
<td>$72.6</td>
</tr>
<tr>
<td><strong>Total CARE Program Funding</strong></td>
<td></td>
<td>$88.3</td>
<td>$52.4</td>
<td>$144.9</td>
</tr>
</tbody>
</table>

CARE = Community Assistance, Recovery, and Empowerment; CalHHS = California Health and Human Services Agency; and DHCS = Department of Health Care Services.
Assessment

Ongoing Program Costs and Participation Uncertain... The state and counties currently are planning how to implement the CARE program. While the first cohort will begin implementation this fall, the ultimate costs for the program are not yet known. A key source of uncertainty is the number of program participants. At full implementation, the administration estimates 18,000 annual program petitions resulting in 12,000 potential participants. Of those potential participants, the administration estimates 10,000 will participate in a CARE plan or agreement. When SB 1338 was being considered by the Legislature, however, counties estimated the number of participants could be tens of thousands higher than the administration’s estimates. Due to the narrow, statutory definition and professional judgment on the part of the court and behavioral health professionals in determining eligibility and ordering a CARE plan, it is difficult to assess how many individuals would participate in the CARE program.

...And Data Will Not Be Available Before Full Implementation. Senate Bill 1338 places a number of data reporting requirements on counties, courts, and state departments. Specifically, statute requires that DHCS develop an annual CARE Act report that includes data such as participant demographics, services ordered and/or provided under CARE plans and agreements, outcome measures to assess effectiveness, and a health equity assessment. While the data collection and program evaluation components of SB 1338 are robust, the first annual report is not expected to be released until October 1, 2024 at the earliest. Given Cohort 2 is to begin implementation December 1, 2024, the first report will not be available to inform the funding requirements under full implementation.

2023-24 Cost Estimate Appears a Reasonable Starting Point. The underlying participation assumptions made by the administration in developing its budget proposal could end up overestimating or underestimating actual ongoing program costs. This possibility is more pronounced in future years as the program ramps up to full implementation. Despite these open questions, we find that the administration’s proposal for 2023-24 is a reasonable starting point in light of the uncertainty.

Recommendations

Approve One Year of Funding for Cohort 1. We recommend the Legislature only approve the requested funding for 2023-24. While we recognize that there will be costs in subsequent years that require state funding—for both the continued implementation by Cohort 1 counties and the scheduled implementation by Cohort 2 counties—the Legislature currently lacks the data to fully evaluate program needs and costs beyond the budget year. By providing one year of funding, the Legislature will have the opportunity to evaluate Cohort 1’s implementation of the program and better understand potential ongoing costs as the program ramps up to full implementation. The Legislature also may choose to pursue legislative changes to ensure the program is operating as desired or change how funding is provided to support the program based on the initial implementation. Delaying decisions about ongoing spending could help facilitate those program adjustments.

Require Interim Data Reporting Prior to Cohort 2 Implementation. We recommend the Legislature require more regular data reporting from courts, counties, and DHCS on the program prior to the full implementation of Cohort 2. While SB 1338 requires an annual report with key program metrics and outcomes—information which could inform the program’s future funding requirements—this report likely would not be available until after the 2024-25 budget deliberations. As such, the Legislature could consider requiring periodic reporting by Cohort 1 counties of key metrics that could include: (1) the number of CARE petitions received and the number of individuals admitted to the program; (2) the number of, and hours spent on, clinical evaluations; (3) the hours spent by county behavioral health staff preparing for, and appearing in, court; (4) the services and supports ordered, provided, and ordered but not provided in CARE plans; (5) the reason a service or support was ordered and not provided; and (6) the number of participants who have left the program to date and the reasons for leaving. Additionally, the Legislature could direct counties to report on the funding streams used to support CARE program behavioral health services and evaluate potential capacity constraints.
Specify Process for Development of Ongoing Funding Requirements. We also recommend the Legislature adopt trailer bill language that would specify the process by which the estimate of the CARE program’s ongoing funding requirements for counties will be developed. Using the data outlined in our previous recommendation, the Legislature can better estimate ongoing costs associated with implementing the CARE program. While we recommend the Legislature approve funding for only 2023-24 at this juncture, establishing a process for determining ongoing funding now could help ensure counties can implement the program according to the Legislature’s vision.

CALAIM-RELATED SPENDING PROPOSALS

Background

CalAIM Consists of Various Initiatives That Impact Behavioral Health. Adopted in the 2021-22 budget package, CalAIM is a large set of reforms in Medi-Cal to expand access to new and existing services and streamline how services are arranged and paid. Some key initiatives include (1) enhanced care management, which provides comprehensive care coordination to certain at-risk individuals; (2) community supports that provide housing support, transitional services, and other benefits that address the social determinants of health; (3) various capacity building initiatives that help counties and other service providers provide a continuum of care that ranges from in-home support to more intensive inpatient and residential services; and (4) behavioral health payment reform to help counties transition to a less administratively burdensome and more timely process for receiving federal Medicaid funds for behavioral health-related services.

Opportunity to Receive Federal Match for Short-Term Stays in Institutions for Mental Disease (IMDs). In 2018, the Centers for Medicare & Medicaid Services (CMS) released guidance that allowed states to request a waiver to receive federal reimbursement (a federal share of cost) for services provided during short-term stays at residential treatment facilities that are considered IMDs. Federal reimbursement is contingent on meeting a series of milestones that include licensing and increased oversight of participating hospitals and residential settings, the expansion of care coordination and community treatment opportunities for individuals with acute mental health needs, increased access to a full continuum of care including crisis stabilization, and early identification and engagement of adolescents and young adults with behavioral health needs. Additional guidance was released in 2021 allowing states to receive federal reimbursement for longer stays in Short-Term Residential Therapeutic Programs classified as IMDs for youth in the child welfare system for a period of up to two years. In January 2022, California received federal approval of a waiver allowing the state to receive federal reimbursement for substance use disorder services provided in IMDs by increasing the services available under the Drug Medi-Cal Organized Delivery System.

Administration’s Assessment of the Continuum of Care for Behavioral Health Services in the State. In January 2022, the administration released findings on the landscape of behavioral health services in a report titled “Assessing the Continuum of Care for Behavioral Health Services in California.” One of the stated reasons for the assessment was to support the administration’s plans to submit a federal waiver to receive federal reimbursements for services provided to individuals in IMDs. In order to gain waiver approval, the state would be required to build out necessary behavioral health infrastructure to address identified statewide gaps for community behavioral health care.
Proposals

In this section, we describe the Governor’s two major behavioral health-related spending proposals that are components of CalAIM.

$375 Million General Fund for CalAIM Behavioral Health Payment Reform. In the 2021-22 budget, the Legislature approved a change to how counties are reimbursed under Medi-Cal. Beginning July 1, 2023, counties will transition away from cost-based reimbursement to a less administratively burdensome and more timely process for receiving federal Medicaid funds for behavioral health-related services. Under the new intergovernmental transfer (IGT) process, counties will transfer funds covering their nonfederal share of cost into a state account, which will be used to draw down the associated federal funds. This new process could create cash-flow issues as counties will be paying the full cost of services in addition to paying their nonfederal share of costs to the state prior to federal reimbursement. To help implement this change, the Governor proposes $375 million in one-time General Fund in 2023-24. The one-time General Fund roughly covers counties’ share of cost for the first three months of 2023-24, mitigating potential disruptions to counties’ cash-flow during the transition.

$6.1 Billion Total Funds Over Five Years for CalBH-CBC Demonstration Waiver.
The Governor proposes $314 million General Fund ($6.1 billion total funds) over five years to DHCS and the Department of Social Services for the new CalBH-CBC demonstration. In 2023-24, the Governor’s budget specifically proposes $311,000 General Fund ($6 million total funds) in the DHCS Medi-Cal budget. The demonstration would allow for federal reimbursement under Medi-Cal for eligible services provided in IMDs to certain individuals with acute mental health needs. Under the current waiver, counties can receive federal reimbursement only for substance use disorder services provided in IMDs. The CalBH-CBC demonstration waiver—if approved by the federal government—would allow for federal reimbursement of mental health services provided in short-term (less than 60 days) IMD stays.

To qualify, the state—along with counties that opt into the demonstration—must demonstrate a robust continuum of community-based services that reduces the need for institutional care. There are two broad components of the demonstration: (1) requirements placed on the state as a condition of receiving CMS approval of the waiver and (2) requirements placed on counties opting in to the waiver in order to receive federal reimbursement for services provided under the waiver. We discuss each of these in turn.

Statewide Demonstration Components Required to Receive CMS Approval. The Governor’s budget proposes the following state activities to meet the requirements to receive CMS approval of the demonstration waiver.

- **Strengthen Continuum of Community-Based Services.**
The administration proposes improving existing benefits and providing new services to children and youth. Some of these include incentives to encourage collaboration between health and child welfare agencies and activity stipends for children in the child welfare system.

- **Support Practice Transformation.**
The administration proposes using federal funds to establish statewide Centers of Excellence that will provide training and technical assistance to counties and providers on improving the continuum of care. Additionally, the demonstration includes a statewide incentive for counties to build a quality improvement program and funding for tools to help individuals connect to behavioral health services.

- **Improve Statewide County Accountability for Medi-Cal Services.** A key component of receiving federal waiver approval is improving accountability and oversight of the community-based continuum of care. The administration anticipates amending the county managed health plan contract to establish accountability standards, build on the standards included in the state’s Medi-Cal Comprehensive Quality Strategy, and outline incentive payment opportunities.
County Opt-In Components Required to Receive Reimbursement. If a county opts in to the demonstration program under the waiver, it is required to do the following in order to receive federal reimbursement under Medi-Cal for an expanded set of services provided in IMDs.

- **Enhance Community-Based Services.** Federal reimbursement of the IMD services is conditioned on a county providing a set of community-based services, which themselves are eligible for federal reimbursement as an incentive to providing them. The community-based services that must be provided are listed in Figure 2. As noted in the figure, most of the services are already eligible for federal reimbursement under Medi-Cal. The administration also proposes changes that would help to draw down additional federal funds.

- **IMD Oversight and Accountability.** In addition to providing all of the community-based services listed in Figure 2, counties will need to ensure IMD facilities meet all CMS requirements on facility accreditation and make efforts to decrease the length of stay in IMDs.

Assessment

Facilitating CalAIM Behavioral Health Payment Reform Merits Legislative Consideration. Under the current cost-based reimbursement model, counties pay providers for eligible services and submit the claim (through DHCS) to the federal government for reimbursement of the federal share of cost. This process requires extensive documentation of costs and can take significant time to receive reimbursements.

Under the new IGT process, in addition to paying providers, counties also are required to submit their nonfederal share of cost to the state prior to receiving federal reimbursement. In other words, counties will be paying both the full cost of services to providers as well as their share of cost to the state early in the claims process. This dual payment requirement raises a cash-flow issue for counties that the Governor’s proposal intends to address.

The cost of the proposal roughly matches the estimated costs that would be incurred by counties during the first three months of the budget year. While counties could use their own general funds or other sources to fund the initial IGT payment, the proposal is a reasonable way to help the CalAIM payment reform be successful when launched, and as such merits legislative consideration.

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**Figure 2**

Enhanced Community-Based Services Required to Be Provided by Counties Opting-In to Demonstration Waiver Program

<table>
<thead>
<tr>
<th>Service</th>
<th>Description</th>
<th>Currently Reimbursable Under Medi-Cal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assertive Community Treatment</td>
<td>A multidisciplinary team delivers services and support directly to beneficiaries in their community.</td>
<td>Yes</td>
</tr>
<tr>
<td>Forensic Assertive Community Treatment</td>
<td>A multidisciplinary team delivers services and support directly to justice-involved beneficiaries in their community.</td>
<td>Yes</td>
</tr>
<tr>
<td>Coordinated Specialty Care for First Episode Psychosis</td>
<td>An early intervention approach aimed at treating individuals following an initial psychotic episode.</td>
<td>Yes</td>
</tr>
<tr>
<td>Community health worker Services</td>
<td>Community health workers support county behavioral health providers by performing outreach and supporting engagement in behavioral health prevention.</td>
<td>Yes</td>
</tr>
<tr>
<td>Supported Employment</td>
<td>Vocational assessment, job-finding assistance, and job skills training for individuals with acute mental health needs.</td>
<td>No</td>
</tr>
<tr>
<td>Rent or Temporary Housing</td>
<td>Up to six months of rent support or temporary housing to high-needs beneficiaries that are homeless or at risk of homelessness. Must be medically appropriate based on clinical and other health-related social needs criteria.</td>
<td>No</td>
</tr>
</tbody>
</table>
As currently structured, however, this proposal is a one-time expenditure and would not be repaid by counties. As such, the Governor chose to delay or reduce an additional $375 million General Fund elsewhere in the budget in order to prioritize this proposal. In an environment of constrained budget resources, this proposal arguably merits extra scrutiny as the Legislature weighs it against its other priorities.

**CalBH-CBC Waiver Builds on Previous Behavioral Health Initiatives...** CalAIM has introduced a number of initiatives that have expanded access to services for individuals with acute mental and behavioral health needs. In order to receive federal reimbursement under the waiver for an expanded set of services provided in IMDs, the state, along with counties that opt in, will have to establish a robust community-based continuum of care to limit the number of individuals in IMDs as well as their length of stay. The administration considers a number of recently enacted initiatives, for example, the Children and Youth Behavioral Health Initiative, to be key components in a continuum of care for individuals with acute mental and behavioral health needs. The proposal appears to fit within the state’s broader efforts on expanding access to behavioral health services and many of the proposals within the demonstration, such as expanding the number of community-based services counties may receive federal reimbursement for, have merit in this context.

**...But Much Information Is Lacking to Fully Evaluate the Administration’s Proposal.** As the administration has not provided the Legislature with its multiyear spending plan for the term of the demonstration program, the Legislature is unable to assess the budgetary impacts beyond 2023-24. For example, what activities will be funded, and at what level, by the General Fund over most of the term of the program is unknown. Additionally, as the waiver has not been approved by CMS, there is uncertainty on what the final demonstration will entail and how it could differ from what is known about the current proposal.

**County Participation Unclear.** Receiving a waiver for expanded use of IMD treatment would reduce county behavioral health costs by drawing down additional federal funds. Given the requirements on counties to implement the demonstration project, however, whether there would be a net fiscal benefit is uncertain. We are not aware of any comprehensive information on current county costs associated with IMD treatment that would become reimbursable under the waiver. As the demonstration would impose new funding requirements related to the provision of community-based services on counties that opt in, whether the newly available federal funding would exceed the costs of the counties’ new funding requirements is unknown. Accordingly, estimating the number of counties that may choose to participate is difficult.

**Solicit More Information During Budget Hearings.** We therefore recommend that the Legislature use upcoming budget hearings as an opportunity to request more information from the administration on the demonstration waiver proposal. The Legislature might want to seek clarity on the administration’s multiyear spending plan as well as the likely net fiscal impact to the state and counties if this proposal is approved. This information will put the Legislature in a better position to weigh the policy merits of the proposal against its costs and trade-offs.
ACTIONS TO HELP ADDRESS BUDGET PROBLEM

Background

BH-CIP. 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 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.

BH-CIP Grants Awarded in Six Rounds.
To date, four of the six rounds of BH-CIP funding have been awarded as follows: (1) $145 million for mobile crisis infrastructure, (2) $16 million for county and tribal planning grants, (3) $519 million for “launch ready” projects, and (4) $481 million for projects targeted at children and youth. Round five, a general-purpose round totaling $480 million, currently is underway. By the end of the current fiscal year, the administration expects that awards will have been made for $1.6 billion of $2.1 billion in funding for BH-CIP (excluding state operations funding). Round six, totaling $481 million, is intended to address remaining needs based on an assessment conducted by DHCS.

BHBH Program. The 2022-23 budget package included $1 billion General Fund in 2022-23 and $500 million General Fund 2023-24 for grants to local entities to develop transitional housing for individuals experiencing homelessness who also have serious behavioral health conditions. The funding is intended to provide immediate bridge housing options for this population until the longer-term housing and behavioral health facilities funded in BH-CIP and recent housing augmentations come online. The administration plans three rounds of funding: (1) $908 million distributed via a formula to county behavioral health departments, (2) $50 million to tribal entities, and (3) a competitive round of grants for counties and tribes totaling $250 million. (These amounts exclude a total of $42.1 million in state operations funding.) The first round of funding is expected to be released in February 2023.

Proposals

Delays $481 Million in BH-CIP and $250 Million in BHBH Funding. The Governor’s budget proposes to delay the sixth round of BH-CIP grant funding previously budgeted for 2022-23. Half of the delayed funds would be provided in 2024-25 with the remaining amount provided in 2025-26. In addition, the Governor’s budget proposes to delay $250 million in BHBH funding previously budgeted in 2023-24 to 2024-25.

Assessment

LAO Criteria for Evaluating Reductions and Delays. We think revenues are unlikely to meet the estimates on which the Governor’s budget is based and have recommended that the Legislature plan for a larger budget problem than that identified in the Governor’s budget. In our report, The 2023-24 Budget: Overview of the Governor’s Budget, we detailed criteria that we recommend the Legislature use in evaluating whether to maintain augmentations made in recent budgets. Generally, we recommend the Legislature maintain augmentations that specifically address an ongoing legislative priority, with particular emphasis on programs that serve populations of concern and that meet an acute, rather than long-term, need.

BH-CIP Delay Reasonable. After the fifth round of grants are awarded, DHCS will have allocated $1.6 billion of $2.1 billion (excluding state operations funding) for BH-CIP, a substantial allocation of funding towards a clear legislative priority. Given the progress already made in implementing the program, and that the benefits from many of the projects funded by BH-CIP will take time to materialize, we think delaying the remaining $481 million in grants is reasonable. This delay also would allow for a more robust evaluation of outstanding need, which will allow the remaining funding to be more effectively targeted to the most acute of the outstanding need and may improve the cost-effectiveness of the program.
Reevaluate BHBH Delay at May Revision.
Like BH-CIP, BHBH is intended to address a clear legislative priority—transitional housing for individuals experiencing homelessness with serious behavioral health conditions. In reviewing the proposal last year, we raised a number of questions about how funds would be targeted, how the program would integrate with related state efforts, and the strategy for long-term success of the program.

As of mid-February, the administration had yet to release full implementation details that would aid the Legislature in evaluating the extent to which the spending plan for BHBH should be modified. The Legislature may wish to consider deferring action on this proposed delay until the May Revision, at which time the Legislature will have a better sense of the extent of the state’s budget problem and the extent to which funding for BHBH continues to align with its priorities.
This report was prepared by Ryan Miller and Will Owens, and reviewed by Mark C. Newton and Carolyn Chu. The Legislative Analyst’s Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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