Housing the Mentally Ill and Chronically Homeless:

An Effective Solution, but Counties Need Greater Flexibility

A report prepared for the California Senate Rules Committee

August 11, 2011

Prepared by Nancy Vogel

California Senate Office of Oversight and Outcomes

John Adkisson
John Hill
Dorothy Korber
Nancy Vogel

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Lorie Shelley, California Senate

Folsom Oaks Apartments, Folsom, where five of 19 units are reserved for mental health clients.

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Executive Summary

In November 2004, California voters agreed to tax millionaires to pay for mental health treatment. They passed Proposition 63, which uses one percent of personal earnings over $1 million to expand and improve county-run mental health programs.

On average, Proposition 63 generates more than $1 billion a year. Most of the money funds one-on-one counseling and other services for people disabled by schizophrenia, depression, bipolar disorder, and other psychiatric problems.

Nothing in the initiative, called the Mental Health Services Act, requires counties to build housing and subsidize rent for chronically homeless people who suffer severe mental illness.

Nonetheless, under pressure from state leaders, county mental health directors agreed in 2007 to make a one-time dedication of $400 million of their Proposition 63 revenue to create housing for these most vulnerable Californians. They called the effort the Mental Health Services Act housing program. Two state agencies – the Department of Mental Health and the California Housing Finance Agency – wrote and enforce the program rules.

This four-year-old experiment is on track to eventually give decent new homes and support to roughly 2,500 people who might otherwise be on the streets. It has worked well in some counties, most urban, even as a collapsing housing market and budget shortfalls strained the agencies in charge. The program has fostered partnerships among county mental health and housing officials and developers.

However, the housing program likely will not last as structured. The future of the program rests with counties, which control most Proposition 63 funds. Many county officials chafe at state control of the housing program. Furthermore, even those convinced of the value of housing for their chronically homeless clients face demands to spend the money on counseling, medication, and other immediate services.

After an extensive review that included responses from officials in all 50 participating counties, the Senate Office of Oversight and Outcomes concludes the following:

- Creation of permanent supportive housing is an effective way to significantly reduce chronic homelessness.
- Providing secure, long-term housing should be seen as an essential first step to treating homeless people with severe mental illness.
- Proposition 63 dictates that its revenue augment, not replace, existing sources of funding for county mental health programs. But other funds have shrunk so much that Proposition 63 revenue comprised 71 percent of county budgets for mental health supportive services by 2009-10. (The funds made up 9 percent of such budgets in 2005-06.)
- To make the housing program work, county mental health directors – typically trained as psychologists or social workers – must either depend upon county employees with housing experience or master the intricacies of housing development themselves.
- If the housing program is to continue, county mental health directors must choose to make long-term investments in the face of demand for immediate services.
- While the Mental Health Services Act housing program has worked well in some counties, it should be significantly revamped to give counties – especially rural counties – greater flexibility.

In particular, the oversight office recommends that the Legislature exempt 11 rural counties from most program rules. Based on population, each of these counties got less than $1 million of the $400 million set aside for housing. Mental health directors in most of these counties have struggled to attract developers and navigate the application process.

The Senate oversight office also recommends that state officials modify a rule that restricts counties to spending no more than one-third of their funds on rental subsidies (as opposed to construction). State officials should continue to grant waivers on a case-by-case basis, and consider lifting the rule entirely for counties that have spent nearly all of their allocation.

These and other findings of the Senate Office of Oversight and Outcomes argue for giving counties – especially rural counties – greater latitude:

- Of the 50 counties participating in the MHSA housing program, 18 had yet to submit an application for any housing project as of May 2011. Twelve of these 18 counties are each home to fewer than 100,000 people.
- Only San Francisco County has invested additional Proposition 63 revenue with the California Housing Finance Agency, beyond the county's original share of the $400 million. Tri-City Mental Health Center, one of two city-based mental health programs to be allocated MHSA housing funds, also invested additional funds with CalHFA.
- Counties have proven they can build housing on their own. Seven counties have committed a combined $15 million of non-housing MHSA funds to build 200 apartments for mentally ill, homeless residents – outside of the program run by CalHFA and the Department of Mental Health.
- Officials in eight counties say CalHFA added value to their housing projects and proved helpful. Others in just as many counties describe the agency's role as burdensome or unnecessary.

Making the current program more flexible fits the recent trend of removing the state as a gatekeeper of mental health dollars. It also may perpetuate housing construction by making the program more attractive to counties. Finally, additional flexibility embodies the client-centered, community-based spirit of Proposition 63.

Once the original $400 million is spent, the state and counties must decide whether and how to continue investing Proposition 63 revenue in housing construction. The Legislature may consider amending the initiative by a two-thirds vote to require such an investment. Or counties acting jointly could take control of a housing program.

The oversight office sees no practical way for the state to require counties to keep investing in the program as currently structured. But state and county policymakers would be foolish to abandon a proven way to stabilize lives and save tax dollars spent on crisis-oriented services.

Introduction

At any given moment, more than 133,000 Californians have no secure place to call home. They lodge in doorways, under bridges, on riverbanks, and in cars. Some sleep on Salvation Army shelter beds or friends' couches.

Of these Californians, roughly 33,800 – or 25 percent – are considered chronically homeless. They are disabled by a mental or physical disorder, and they have been either homeless for a year or more or have had at least four episodes of homelessness in the previous three years.

Researchers estimate that at least one-third of the chronically homeless suffer severe mental illness. Based on 2010 data, that amounts to roughly 11,500 Californians.

Many state voters had these chronically homeless, mentally ill people in mind when, in November 2004, they voted to tax millionaires and use the revenue to bolster mental health services.

Money raised by the tax was intended to transform and expand mental health treatment in California. Backers of the initiative, Proposition 63, promised it would finally create the robust, localized network of support that Governor Ronald Reagan and the Legislature envisioned four decades ago when they curtailed involuntary commitment, closed several state mental hospitals, and declared that "mentally and physically handicapped persons are entitled to live in normal residential surroundings."

Institutions emptied, but the state never funded community mental health care sufficiently to match the need. Many troubled Californians fended for themselves on streets, getting no psychiatric help outside an emergency room, jail, or crisis center.

In the seven years since Proposition 63 passed, the 1 percent tax on personal income above $1 million has generated between $900 million and $1.5 billion annually. That money is divided among counties based on population. Most of the money has been used by counties to provide services such as counseling, medication, temporary housing, and life skills training. The Mental Health Services Act spells out the overall aim of the effort: To encourage hope, personal empowerment, social connections, and responsibility among people with severe mental illness.

Some of the money has helped the neediest of the mentally ill – the homeless – with a proven practice called "permanent supportive housing."

Permanent supportive housing works like this: Give chronically homeless, mentally ill people a secure place to live with support and services, and most will stay housed and move closer to recovery than if they are given treatment with no housing or temporary housing. What's more, the cost of the housing is typically offset by reduced use of emergency rooms, jails, psychiatric clinics, and police.

In 2007, under political pressure from state leaders, county mental health directors agreed to set aside $400 million of Proposition 63 revenue to build permanent supportive housing in all but the eight least-populated counties.

County officials agreed to use the money to build or rehabilitate apartments and houses where people with psychiatric disabilities could live as long as they wanted. These tenants would be offered all the services and support they needed – from anti-depressants to advice on house-cleaning – to live as independently and fully as possible.

The counties called this effort the Mental Health Services Act housing program. Counties agreed to let the California Housing Finance Agency serve as banker for the $400 million. Each county was assigned a share of the money based primarily on population. For example, Los Angeles County (population 10 million) got $116 million. Colusa County (population 22,000) got $312,000.

The effort was expected to last five years, with the possibility of future investments.

Four years later, a few counties have committed nearly their entire allocation to create secure, service-enriched homes for hundreds of people. In smaller counties, officials have helped dozens of people off the street by renovating a small apartment complex or single-family house with several bedrooms. At least twenty-two other counties have yet to build anything. Officials in some of those counties chafe at state control and requirements.

This report describes research on the cost-effectiveness of permanent supportive housing, provides tenants' perspectives, explains the history and rules of the MHSA housing program, and summarizes what counties have accomplished to date. It also considers the state role in the disbursement of the money, and the extent to which the Mental Health Services Act funds have helped to generate housing for low-income Californians in general. Finally, the report weighs the future of the housing program in light of the recent elimination of much state oversight of county mental health programs.

California Housing Finance Agency

The 24-unit Vida Nueva Apartments in Rohnert Park include six units for mental health clients and their families.

Permanent Supportive Housing: A Primer

"Housing First" Eases Homelessness, Reduces Emergency Costs

As California voters passed the Mental Health Services Act in November 2004, a proven solution to chronic homelessness was taking hold across the country.

For decades, governments had tried to help the homeless by building emergency shelters and setting aside "transitional" housing – apartments and rooms where people were supposed to stay a few weeks or months on their way to a more permanent address.

But the investment failed to significantly reduce homelessness. People continued to churn from the streets to shelters and back again, still burdened by mental illness, addiction, unemployment, and often a sense of hopelessness.

A different approach gained traction in the 1990s. On the theory that people cannot begin to address their addictions, health, and past trauma until they feel secure, civic leaders tried the approach of "housing first" and "whatever it takes." Homeless people were given their own rooms or apartments where they could stay as long as they wanted. They were offered healthcare, counseling, medication, peer support, and any kind of needed help, from advice on behaving like a good neighbor and using the bus or finding a job. They could reach help at all hours to stay in their homes regardless of whether they accepted services or used drugs and alcohol.

Researchers found in study after study that a large majority of people given housing stayed there for at least several years. For example, researchers tracked 242 homeless people with psychiatric disabilities who were given supportive housing in New York City between January 1993 and September 1997. They compared those people to a citywide sample of 1,600 homeless people who took the more traditional path of using shelters and drop-in centers, then moving into a group home, single-room occupancy residence or other kind of congregant living situation.

After five years, 88 percent of the people given permanent supportive housing remained housed, compared to 47 percent of those who got more traditional treatment and housing.

Researchers also found that permanent supportive housing is not nearly as expensive as it might seem.

Once settled, most formerly homeless people use fewer expensive, crisis-oriented services such as emergency rooms, jail, detoxification centers, and mental health clinics. The savings help offset the cost of providing housing and support.

One 2002 study of 4,679 homeless people with severe mental illness in New York City found that each used on average $40,451 per year in public services, mostly at hospitals.

After they were given homes, the average annual cost attributed to each person for hospitals, jails, and other public services dropped by $16,281 per year. After taking into account the $17,277 annual cost of housing, researchers put the overall increase in public investment to provide housing at $995 per person.

California similarly studied its public investment in permanent supportive housing. In 1999, the California Legislature agreed to spend $10 million to test the “housing first” approach in Los Angeles, Sacramento, and Stanislaus counties (Assembly Bill 34, Steinberg). Permanent supportive housing proved effective for the 951 people enrolled. Within a year, the number of days clients spent in hospitals dropped by 72 percent, according to the state Department of Mental Health. The number of incarcerations dropped 81 percent. The number of clients with full-time jobs jumped 77 percent.

San Francisco officials conducted their own experiment with permanent supportive housing. Starting in January 2006, the city housed 97 homeless people in the Plaza Apartments and provided case managers, an onsite nurse, and part-time psychiatrist and nurse practitioner. The tenants were also given access to a city health clinic.

Researchers concluded that in the year before they moved into the Plaza Apartments, the 97 tenants had incurred $3.1 million in medical costs. Such costs fell by $2.2 million in the year after the tenants entered housing. Housing and support cost approximately $1.1 million.

Researchers calculated the net overall reduction in cost as $1.1 million, or $11,527 per tenant. They found that most of the cost savings came from reduced use of skilled nursing facilities.

Overall, researchers have found that chronically homeless people consume public services at varying rates, and the highest costs are typically associated with older homeless people who suffer mental health and substance abuse problems. The cost of housing these high-need individuals is fully or mostly offset by savings in public services, according to Dennis P. Culhane, a University of Pennsylvania School of Social Policy and Practice professor who researches homelessness. But the financial savings diminish as permanent supportive housing is offered to homeless people who rarely use emergency rooms and hospitals.

In a December 2010 article in *Psychiatric Services*, Culhane and fellow researchers described their study of the public costs of 2,703 chronically homeless people in Philadelphia. They concluded: "Supportive housing models for people with serious mental illness who experience chronic homelessness may be associated with substantial cost offsets, because the use of acute care services diminishes in an environment of housing stability and access to ongoing support services."

"However, because persons with substance use issues and no recent history of mental health treatment used relatively fewer and less costly services, cost neutrality for these persons may require less service-intensive programs and smaller subsidies."

The non-monetary benefits of such housing are difficult to quantify, but just as real.

Tenants Credit Housing with More Stable, Fulfilling Lives

Tenants of permanent supportive housing often use the same phrases to describe moving-in day: "Like a dream come true." "The best thing that ever happened to me." "It's changed my life."

Before she moved into Ardenaire Apartments near a busy suburban Sacramento mall, Katrina Torres had spent a decade living in a two-door Geo Metro, a van, and rooms funded by the state.

A youthful-looking, matter-of-fact 52-year-old with fine brown hair and a quick laugh, Torres has bipolar disorder. Periodically, it pushed her into suicidal depression.

"We're talking black hole," she said. "You don't see a reason to live anymore."

The oldest of five children, Torres grew up in the rural foothills east of Sacramento. As early as second grade, she said, she wrestled with depression but never asked for help. She helped raise her siblings, cared for parents plagued by health problems, and cooked for the whole family.

In later years, the recurring depression hijacked her life.

In the late 1990s, she wound up homeless in Sacramento, sleeping on milk crates and a foam pad in her tiny car. Still, she maintained order: She enrolled in cooking classes at the local community college. Before dawn, the baker let her in to iron her white uniform before class started.

Torres earned her culinary arts certificate while homeless. For seven years afterward, she lived in housing funded under a program created by the Legislature in 2000 to help homeless, mentally ill Californians. For some of that time, Torres lived in a four-bedroom home with seven other women.

Torres said she stabilized under the state program, with its housing and support. She enrolled in driving school and drove a bus for the local paratransit agency. She got her own apartment and started writing grants for the agency.

But stress and the bipolar disorder "got out of control again," Torres said. She quit her job. For a while, she lived with a brother and her father in Yolo County. Knowing she needed help, Torres moved to Sacramento and lived in her van until the non-profit program Pathways to Success After Homelessness found her temporary housing in what she described as a "horrid little one-bedroom."

Then Torres got on the waiting list for the Ardenaire Apartments. At the time, it was a tattered complex with peeling paint and long, dark hallways. Sacramento County and the non-profit developer Mercy Housing teamed up to renovate the 53-unit complex in 2007.

The county invested $800,000 of Mental Health Services Act money in the $11.8 million refurbishing project. Of 52 units, 19 are dedicated to mentally ill people with a history of homelessness – including Torres.

"It was worth the wait," she said. "It's great to have a place to live that I didn't have to share with roommates who were doing drugs on the side."

Torres now has health insurance, a psychiatrist within easy reach, medications that alleviate her bipolar disorder, and social workers who check on her regularly. Friends count on her to make calls, schedule appointments, and stuff envelopes for Puppy Love Rescue, a volunteer group that arranges pet spaying and neutering for low-income people.

Torres shares her small but well-organized apartment with Whisper, a Chihuahua-Dachsund rescued from the animal shelter. The quiet dog is so attuned to Torres, she licks the diabetic woman's arm when she senses low blood sugar. When the food bank delivers groceries to Ardenaire residents on Fridays, Torres cooks. She makes a dish to feed 20 – such as fried rice or split pea soup with ham hocks – and shares the food and recipe with other tenants.

Torres has learned to recognize symptoms of her illness before it gets out of control. She is trying to curb her impulse to help everyone regardless of the cost to herself. She said her medications work better than at any time in her life, and she understands how crucial friends and neighbors are to her well-being.

"I'm extremely happy to be here," said Torres. "It's really changed my life."

Another Ardenaire resident, Sonya Sanders, struggles to control extreme paranoia. She is diagnosed with schizophrenia and bipolar disorder and wrestles with an addiction to crystal methamphetamine. She said she often feels as if people are trying to break into her home or poison her.

In early 2006, Sanders began to hallucinate and imagine her family was doing things to her. She left the federally-subsidized apartment where she lived with her husband and son. She drifted back and forth between Reno and the San Francisco Bay area and Sacramento, staying with friends and family.

In Sacramento, she moved from motels to the Salvation Army shelter and Sister Nora's Place, a refuge for homeless women, until there was an opening for her at the trim, two-story, beige-and-burgundy apartments near the Arden Fair Mall.

Thirty years old, Sanders has neatly arched eyebrows, intense brown eyes, and wears pink nail polish. She attends an outpatient program at a nearby private mental hospital several times a week. Her hope, she said, is to get well enough to regain custody of the 13-year-old son she lost five years ago – or at least have him visit more often.

Roughly $400 remains each month of her federal disability check after she pays child support and rent. Sanders said she will save to buy a vacuum cleaner and houseplants for her sunny apartment. She is working to curb her paranoia and be more neighborly.

"I love this apartment complex, in spite of my paranoid, delusional thoughts," said Sanders. "I can't picture myself going homeless again. I think I would lose my mind. The public would have a field day on me."

People tell similar stories across town at the Martin Luther King, Jr. Village. Lives are changing in 80 new, neat cottages, each with a front porch and front-yard sapling. Paved paths meander through the village tucked behind a stone wall near a busy south Sacramento freeway and electrical substation.

Sacramento County invested $325,000 of its Mental Health Services Act revenue in this housing project. Thirty of the little one-bedroom houses are dedicated to formerly homeless mental health clients. Other tenants, also formerly homeless and suffering from addiction and mental illness, have their rent and services subsidized by a local hospital chain seeking to reduce emergency room visits and hospital stays.

In the village's airy community room, Fernando, 44, is quick to greet a visitor. He speaks politely and carefully. He is neatly groomed in a pressed, button-down, buttery yellow shirt.

Since high school, Fernando has drifted between Mexico and the United States, living with brothers in Louisiana and couch-surfing with friends and family in California. Everywhere, he wrestled with anxiety, obsessive-compulsive behavior, depression, and alcohol abuse.

"I screwed up every time," said Fernando. "In the end, I was kicked out of every place."

He moved into MLK Jr. Village in January 2010. He now takes medicine, gets therapy, and goes to Alcoholics Anonymous meetings. He volunteers four days a week at a nearby church.

"Everything is possible with a roof over your head," said Fernando. "It's a good start."

Sacramento County tracked 333 formerly homeless, seriously mentally ill people given supportive housing, including residents of MLK Jr. Village and Ardenaire. Results as of June 2011 show that the number of days spent homeless by people in the group fell 95 percent after they were enrolled in the housing program. The total number of days spent in a psychiatric hospital dropped by 75 percent, and the number of days spent in jail or prison by the enrollees fell 64 percent.

Advocates View Supportive Housing as the Solution to Chronic Homelessness

Some argue that such housing, built across California, could end chronic homelessness. Encouraged by the federal government, many California counties have drafted 10-year plans to end chronic homelessness, and those plans depend heavily on construction of permanent supportive housing.

In fact, despite a deep recession that cost many people their homes, the number of chronically homeless Americans declined 11 percent between 2007 and 2010, according to a national assessment published in June 2011 by the U.S. Department of Housing and Urban Development. Over the same period, the number of permanent supportive housing beds increased 26 percent, from 188,636 to 236,798 – a rate of growth that HUD called "remarkable," give that practically none existed in the late 1980s.

Of those permanent supportive housing units, 23 percent nationwide are devoted to people who had been chronically homeless. New York and California account for a third of the nation's total supply of permanent supportive housing units.

In Sacramento County, the number of chronically homeless people counted by volunteers in late January declined by 51 percent between 2007 and 2011 – from 718 people to 353. County officials credit the decline to the creation of more than 500 permanent supportive housing units, including those at Ardenaire Apartments and MLK Jr. Village.

In Los Angeles County, an estimated 47,000 people have no home. One-fourth of them fit the definition of chronically homeless, according to HUD. Hundreds of these people, many with serious psychiatric disorders, curl up nightly on Skid Row sidewalks near downtown Los Angeles.

Yet in the city of Los Angeles, the estimated number of chronically homeless dropped 10 percent between 2009 and 2011, from 6,195 to 5,579, according to the Los Angeles Homeless Services Authority. The authority credits the difference to the city's robust investment in permanent supportive housing. Some experts figure that maintaining the current pace of construction for 10 to 12 years could largely end chronic homelessness in California's most populous county.

"The number of chronically homeless people is going down," said Jonathan Hunter, western region managing director for the non-profit Corporation for Supportive Housing, which has led the "housing first" push for the last 20 years. "We know we have a cost-effective and efficient cure."

Money Needed for Construction, Rent, and Services

It may be cost-effective compared to the personal and societal costs of homelessness. But creating permanent supportive housing is not cheap or simple.

Construction or renovation may range from $200,000 to $350,000 per unit, depending upon many factors. Rooms with shared kitchens and bathrooms are cheaper to build, of course, but less desirable to most people. Proponents say the ideal supportive housing includes a private bedroom, bathroom, kitchen, and living room.

But construction is only one of the three major costs to permanent supportive housing.

Equally important is money to make up the difference between what it costs to operate the housing – such as paying for a security guard, maintenance, employees at a front desk, and, periodically, a new roof -- and what tenants can afford to pay.

Most homeless people lack income beyond a monthly check provided under federal Social Security programs for people with disabilities. Those checks are usually no more than $845, and permanent supportive housing rules typically limit rent to 30 percent of a person's income.

With many tenants unable to pay more than a couple of hundred dollars a month in rent, developers of such housing must find so-called "operating subsidies" to cover the cost of maintaining the apartments or homes over time.

Some government programs bridge this gap. The federal Section 8 and Shelter Plus Care housing rental assistance programs, for example, pay part of the rent of millions of low-income households across the country. But federal rental assistance is difficult to get and often requires years of waiting.

When a county or developer fails to win Section 8 vouchers or some other type of government rent subsidy for tenants, they may set aside MHSA housing program funds to be gradually spent covering rent for a couple of decades.

The Corporation for Supportive Housing has calculated that it takes about $90,616 up front, on average, to subsidize rent for a formerly homeless person in San Diego for 15 years. In cheaper Butte County, the capitalized cost is estimated at $76,070. Costs vary, of course, depending upon a person's ability to pay rent.

Finally, mentally ill residents need services. Help to overcome addiction, secure federal benefits, learn life skills, cope with mental illness, and other services may be provided by the county mental health department or a non-profit group hired by local government. Services, too, may be paid for with other sources of money, each with its own requirements.

The Corporation for Supportive Housing estimated the annual costs of providing a case manager, project coordinator, and employment specialist at roughly $5,788 a year in California. To set aside enough money to cover these costs over 15 years would take about $104,314, according to the housing corporation.

Of all the various sources of money involved in permanent supportive housing, the Mental Health Services Act housing program is unique. It gives counties money for both capital and operating subsidies. Tenant services may be funded with non-housing Proposition 63 revenue.

Most Housing Projects Take Federal, State, Local, and Private Teamwork

Permanent supportive housing doesn't stand out. It may be an entire apartment building devoted to people with serious mental illnesses. It could be five apartments reserved within a 25-unit building. Permanent supportive housing also may be what's known as "shared housing" – a single-family house where residents, all diagnosed with serious mental illnesses, share bathrooms and kitchens but have their own bedrooms.

No matter what it looks like, it takes a lot of players to fund, build, and serve permanent supportive housing.

Typically, non-profit developers team with a city, county, or redevelopment agency to construct or renovate such housing. Non-profit developers in California include Mercy Housing, Clifford Beers Housing, A Community of Friends, Affordable Housing Associates, Many Mansions, and Burbank Housing Development Corporation. While they are non-profit, these companies must make enough money from the development deal to pay staff and cover costs.

These projects tap a complicated mix of federal, state, local, and private funds. According to the Corporation for Supportive Housing, such projects usually require between six and 13 different funding sources.

Each source of money, whether HUD or the California Department of Housing and Community Development, imposes timelines and restrictions on how the money may be used.

Mental Health Services Act Housing Program

Proposition 63 Authors Avoided an Explicit Housing Mandate but Promised to Help the Homeless

During the 2004 campaign to pass Proposition 63, backers promised that the initiative would pay for homes for mentally ill people living on the street.

A month before voters passed Proposition 63, initiative co-author Rusty Selix told the Los Angeles Times that if the measure passed, “no one who is mentally ill and now on the street will be on the street in five years. That doesn’t mean there won’t be homeless. But you will see a measurable decline.”

Clearly, the authors intended Proposition 63 to create more housing.

But the initiative itself does not dedicate any revenue to the construction of permanent supportive housing.

The Mental Health Services Act was worded carefully based on focus groups and polls to build voter support. Its authors said they deliberately avoided making housing an explicit purpose of the act. Selix, a co-author, said drafters feared losing the support of voters wary of living near people with severe mental illness.

“We were afraid if we mentioned housing in the act it would create this NIMBY (not in my backyard) backlash,” said Selix.

Furthermore, he said, affordable housing proponents assured the initiative writers that not mentioning housing would not prevent counties from using the money to buy or build permanent supportive housing.

Some of the revenue from the act dedicated to providing one-on-one services has been used by county mental health departments to temporarily pay the rent or motel bills for hundreds of mentally ill Californians with no secure home.

Proposition 63 (Mental Health Services Act) Revenue

Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (projected)
Total	$254 million	$906 million	$984 million	$1.5 billion	$1.2 billion	$1.4 billion	$1 billion	$872 million

Source: Mental Health Services Act Oversight and Accountability Commission

But no section of the initiative requires counties – the main providers of mental health services in California – to build long-term homes for people with psychiatric disabilities.

In fact, the word "housing" appears in the initiative just once, in a preamble describing the prevalence of mental illness and the high cost to society of failing to treat it:

> *"State and county governments are forced to pay billions of dollars each year in emergency medical care, long-term nursing home care, unemployment, housing, and law enforcement, including juvenile justice, jail and prison costs."*

Homelessness is mentioned in the act as one of seven "negative outcomes" that may stem from untreated mental illness – along with suicide, incarceration, school failure, unemployment, prolonged suffering, and removal of children from their homes.

As they wrote regulations to carry out the act in 2005, state officials might have insisted that a purpose of the act included building housing for severely mentally ill, homeless Californians. The state might have attempted to force counties to devote a portion of their annual revenues to housing construction.

But the housing program was borne of political pressure, not an explicit state mandate.

Governor's Campaign to End Homelessness Targets MHSA Funds

After the act passed in November 2004, the state and counties had to figure out how to achieve its goals for a more expansive, inclusive, effective, innovative, and accountable mental health system.

Local and state governments held hundreds of "stakeholder meetings" to gather input from mental health clients, family members, therapists, and the community.

In many places, stakeholders flagged new housing as a top priority. Some counties quickly launched plans to use some of the new revenue to build permanent supportive housing.

That grassroots prioritization was soon overtaken by an effort launched by then-Governor Arnold Schwarzenegger. In May 2005, the governor set out to end chronic homelessness in California. He ordered state, local, and non-profit agencies to work together to create a 10-year plan.

A year later, Schwarzenegger targeted Proposition 63 revenues as a way to help fund the effort. He did so at the suggestion of Senator Darrell Steinberg (D-Sacramento), who helped to write Proposition 63 and oversaw its launch as chair of the Mental Health Services Act Oversight and Accountability Commission from its inception in July 2005 to September 2007.

In May 2006, the governor issued an executive order directing the state Department of Mental Health – in consultation with the California Mental Health Directors Association – to allocate $75 million a year of Proposition 63 revenue to build or refurbish 10,000 housing units for mentally ill, chronically homeless people. The governor directed that the money be taken from Proposition 63 funds earmarked for services such as counseling, medication, and emergency shelter.

Housing advocates involved in the effort said the 10,000-unit goal was derived from an estimate of how many units could be built with $75 million a year for 20 years. But 10,000 units was also an amount that experts figured would be enough to make a noticeable difference in California's population of chronically homeless, which numbered roughly 65,000 in 2005.

Steinberg supported the effort, and told a newspaper reporter in January 2007, "It's our first major initiative under the Mental Health Services Act . . . We promised to voters that we would deliver big impacts, and this will be one of the big impacts to address homelessness."

In September 2006, Schwarzenegger signed legislation to launch the housing effort. The bill (SB 257, Chesbro) gave the California Housing Finance Agency authority to finance permanent supportive housing for people with mental illness. It directed CalHFA and the Department of Mental Health to give the Legislature a plan describing how they would spend up to $75 million a year of Mental Health Services Act revenue to create 10,000 housing units.

SB 257 invited the Legislative Analyst's Office to comment on the housing program, including the reasonableness of a 10,000-unit goal. To date, the LAO has not scrutinized the program or the reasonableness of that goal.

To comply with SB 257, a working group of state and county officials submitted a plan to the Legislature in the summer of 2007. That plan assumed counties would continue to invest Proposition 63 revenue to reach the 10,000-unit goal by 2027. That plan now appears optimistic compared to the results of the past four years:

- The working group's projections stretched to 2027. They estimate the completion of 2,338 housing units by 2012.
- As of April 2011, counties had built or committed to build projects that will eventually create 1,480 homes.

Incidentally, the legislation also lifted a cap on the salaries of CalHFA executive staff. The bill set the stage for pay raises of 11 percent to 88 percent for eight top managers, according to the state auditor.

Counties Challenge State Authority but Agree to Invest in Housing

From its beginning, the MHSA housing program has aggravated a county-state tension inherent in the act.

Proposition 63 directs most of its revenue to counties, to be used at their discretion to meet local needs within state guidelines. The initiative gives counties primary responsibility for transforming mental health services, and directs the state to "contract with counties for the provision of services."

State officials, on the other hand, control release of the money and see their responsibility as setting standards for the counties to ensure the money is put to best use.

Some county officials bristle at what they view as state interference, and they have on occasion accused the state Department of Mental Health of overreaching its authority.

The push by Steinberg and Schwarzenegger to create 10,000 apartments with Proposition 63 revenue created a political minefield for counties, because any attempt by counties to question the state's authority to steer Proposition 63 revenue could be perceived as a lack of support for permanent supportive housing.

The governor's announcement – and the resulting political momentum – "created all kinds of legal and political challenges," said Patricia Ryan, executive director of the California Mental Health Directors Association, a non-profit advocacy group for the people who manage county mental health programs.

Rather than resist the governor's and Steinberg's top-down push for more permanent supportive housing, the association's governing board in March 2007 voted to earmark $400 million of Mental Health Services Act revenue for a housing program. At the time, revenue from the tax on millionaires was unexpectedly high, and counties had $400 million in uncommitted cash available.

"Counties tried to figure out how much they could give to this program," said Ryan, "and came up with $400 million."

County officials made it clear that the program would fail without money to cover operating and maintenance costs, because formerly homeless people cannot typically afford much, if any, rent. So state and county officials agreed to divide the $400 million: $75 million a year for capital costs, $40 million a year to subsidize the rent that covers operating and maintenance costs.

State and county officials agreed to disburse the $400 million based largely on population. They allowed eight counties, all with 20,000 or fewer residents, to opt out of the program. Those counties are Alpine, Inyo, Mariposa, Modoc, Mono, Plumas, Sierra, and Trinity.

The county mental health directors agreed to allow the money to be held and managed by the CalHFA, as authorized by SB 257. That self-supporting state agency, created 35 years ago, sells tax-exempt bonds and uses the money to finance affordable housing construction and help homeowners make down payments.

But SB 257 did not take into account the counties' insistence – and the state's concurrence -- that Proposition 63 does not give the state Department of Mental Health authority to unilaterally shift Proposition 63 revenue to CalHFA.

In June 2006, as county officials tried to delineate their rights and responsibilities under Proposition 63, the California Mental Health Directors Association obtained a legal opinion concluding that the state may not divert Proposition 63 funds from counties for statewide purposes without county approval.
State lawyers reviewed the initiative and deferred to counties. To handle

those situations in which the Department of Mental Health wanted to invest Proposition 63 revenue in state-run programs – rather than a program created and operated by individual counties – the department and counties came up with a bureaucratic maneuver.

They forged an agreement whereby counties would have the option to "assign" some of their Proposition 63 revenue to the state for state-run endeavors such as the housing program.

Counties retained discretion under this "assignment" process. They could choose not to give the state their share of revenue, in which case the money would be distributed among other counties.

Ryan of the county mental health directors' association characterized the process this way in a January 2008 letter to CalHFA:

"DMH and the counties now understand that the MHSA does not give the state the authority to withhold and transfer local assistance funds to CalHFA without the approval of Counties. This approval includes both support from local stakeholders and boards of supervisors."

This process of having counties "assign" money to the state is formalized in the MHSA Agreement that the state Department of Mental Health signed with each county mental health department after the passage of Proposition 63:

> *"By mutual consent, the County may assign the funding reserved for the County for specific MHSA activities to the State for the purposes of implementing state administered MHSA projects."*

Besides the MHSA housing program, this "assignment" process is used to fund statewide initiatives aimed at preventing suicide, reducing the stigma of mental illness, and serving the mental health needs of students.

Any attempt by the state to order counties to invest MHSA funds in permanent supportive housing would run afoul of this agreed-upon structure.

In her January 2008 letter, Ryan expressed optimism that most counties would agree to give CalHFA their share of the housing program money and abide by the rules. She added a prescient note of caution:

"But, quite frankly, this will not necessarily be easy to accomplish in all communities as diverse as those in California."

Program Rules Divvy Money Among Counties and Purposes

Most fundamental of the rules the state Department of Mental Health and CalHFA established for spending the $400 million was this: The housing would be offered only to people with severe mental illnesses who are either homeless or at risk of being so. Those at risk include people discharged from psychiatric hospitals, county jails, and those already getting county mental health services with no suitable place to live.

Furthermore, the program rules allow the money to be used only for construction or renovation of homes and apartment buildings. Counties may not use the Mental Health Services Act housing program money to pay any part of the rent of clients living in privately-owned apartment buildings. This practice, called "master leasing," has long been used by county mental health officials to quickly shelter people living on the street. But paying rent to willing landlords does not expand the number of apartments dedicated long-term to people with mental illnesses.

To carry out the housing program, the two state agencies divided roles. CalHFA would weigh the feasibility and financing of housing projects proposed by counties. The state mental health department would evaluate each county's plans for providing long-term services to tenants. The role was familiar to the department, which had already been screening county plans to spend non-housing MHSA money.

Other rules established by the state Department of Mental Health and CalHFA for the housing program:

- The state divided the $400 million among counties based on population, poverty levels, the uninsured population, estimates of the prevalence of mental illness, and estimates of self-sufficiency. (Two non-county entities also got a share: The city of Berkeley got $1.3 million and the Tri-City Mental Health Center, which serves Pomona, Claremont, and La Verne, got $2.4 million. These city-based mental health departments get direct state funding.)
- The eight counties awarded $300,000 or less (each with fewer than 20,000 residents) were allowed to opt out of the program and use their funds for services.
- Each county can spend no more than one-third of its allocation on "operating subsidies" – the pool of money necessary to bridge the monthly gap between what formerly homeless tenants can pay and the true cost of housing. Two-thirds of the money must be spent on construction or renovation.

- For-profit developers may not be involved. County mental health departments may partner only with non-profit developers, redevelopment agencies, county housing authorities, or other local government entities. Development partners must meet certain criteria, such as "a track record of five years of successful affordable rental housing development."
- Counties must leverage the Mental Health Services Act housing program money. The housing program may fund only one-third of construction or rehabilitation costs, up to $112,486 per unit, and counties must get federal, state, local, or private investments to cover the rest. There is an exception: When counties create "shared" housing (a single-family home with up to five bedrooms for mental health clients), all costs may be covered by Mental Health Services Act revenue.
- Each apartment built under the program must include a living area, sleeping area, full bathroom, and a kitchen with at least a two-burner stove, microwave oven, and refrigerator.
- Tenants can pay no more than 30 percent of their total household income for rent.
- Tenants may not include state or federal prison parolees.
- The money may not be used to fund any developments that require a license, such as a community care facility, where residents get help with bathing, grooming, and eating.
- Participation in services is voluntary, not mandatory.
- Counties must pay CalHFA certain fees. As of April 2011, those fees collected by CalHFA had totaled $5.4 million.

Program Results

In First Four Years, 870 Units Finished

Four years have passed since counties agreed to dedicate $400 million to the housing program. As of April 2011, counties had spent $146 million of the money to create 870 units of housing.

The $146 million includes enough money to subsidize rent and maintenance costs at the 870 apartments and homes for at least 15 years.

According to CalHFA, 21 completed projects housed 220 mental health clients as of July 2011.

Counties intend to use another $83.5 million for projects, at the application stage or beyond, that involve another 610 units of housing.

Thus, as of April 2011, more than half of the $400 million had been spent or was intended to be spent for specific projects that will eventually give homes to – and subsidize living costs for – at least 1,480 people who would otherwise be on the streets or precariously housed.

This investment does not capture the full cost of creating this housing, because counties cannot use Proposition 63 funds to pay for more than one-third of the construction or rehabilitation costs for most projects. Nor do these costs include the expense of providing counseling, medication, and other services to new tenants. Counties pay for such services with non-housing Mental Health Services Act funding or another source of dollars.

Based on the experience to date, the counties have spent or intend to spend an average of $155,000 of Proposition 63 revenue per housing unit, including rental subsidies. By that measure, the $400 million investment in housing will ultimately help approximately 2,500 people and their families.

Assuming, as some researchers do, that at least one-third of chronically homeless people suffer severe mental illness, it would take roughly 50 years and $2 billion to house that portion of the state's 33,800 chronically homeless people at the current pace of housing construction under existing program rules. Counties could quicken that pace with greater investments and leveraging of funds.

Urban Counties Move Most Quickly to Build Housing

Counties embraced the Mental Health Services Act housing program with varying degrees of enthusiasm and expertise.

Thirteen counties have committed 75 percent or more of their Mental Health Services Act housing program money. Some are heavily populated: Alameda, Kern, Los Angeles, Sacramento, San Francisco, and Ventura. Others are mid-sized or small: Madera, Merced, Monterey, Napa, Nevada, Sonoma, and Tuolumne.

Officials in the most urban of these counties say they want to invest more because the need for such housing is so great.

At the other end of the spectrum, three counties put off even assigning their money to CalHFA for four years. Lassen, Del Norte, and Kings counties finally assigned their money in April and May 2011 to avoid a June 2011 deadline when the money would have reverted to the state to be distributed to other counties.

In between are dozens of counties, most of small to medium-size population, that are either waiting to see if their projects will get state approval, seeking public comment on proposals, or just beginning to consider how to spend the housing money.

In all, 32 of the 50 counties big enough to participate in the MHSA housing program have either finished a permanent supportive housing project using the MHSA revenue, committed to doing so, or have applied to CalHFA to use their share of the money for a specific project. (That includes Lake, San Bernardino, San Joaquin, San Luis Obispo, and Tuolumne counties, which put projects on hold.)

Most of the 32 counties are well populated. Among them, only Lake, Nevada and Tuolumne counties have fewer than 100,000 residents.

Conversely, 18 counties have yet to apply to use their MHSA housing funds. Most – 12 – have fewer than 100,000 residents. The most populous counties that have yet to apply to use their housing money as of April 2011 are Butte, Yolo, Shasta, and Imperial. Combined, these 18 counties account for 4.4 percent of the state's population.

Estimates of Chronic Homelessness, by County

County	Chronically Homeless	County	Chronically Homeless
Alameda	1,026	Orange	3,783
Alpine	not available	Placer	231
Amador	30	Plumas	2
Butte	186	Riverside	721
Calaveras	24	Sacramento	432
Colusa	1	San Benito	8
Contra Costa	940	San Bernardino	361
Del Norte	126	San Diego	1,271
El Dorado	15	San Francisco	2,816
Fresno	590	San Joaquin	377
Glenn	13	San Luis Obispo	201
Humboldt	427	San Mateo	455
Imperial	12	Santa Barbara	483
Inyo	not available	Santa Clara	2,270
Kern	258	Santa Cruz	842
Kings	39	Shasta	53
Lake	not available	Sierra	0
Lassen	5	Siskiyou	not available
Los Angeles	11,420	Solano	105
Madera	64	Sonoma	1,025
Marin	135	Stanislaus	442
Mariposa	not available	Sutter/Yuba	78
Mendocino	474	Tehama	20
Merced	51	Trinity	5
Modoc	not available	Tulare	93
Mono	not available	Tuolumne	35
Monterey	656	Ventura	787
Napa	132	Yolo	150
Nevada	129		
TOTAL			33,799

All surveys conducted in 2009, 2010, or 2011.
Sources: Amador-Calaveras-Tuolumne Continuum of Care, Amador-Tuolumne Community Action Agency, Colusa-Glenn-Trinity Community Action Partnership, Community Assistance Network (Del Norte County), Crossroads Ministries and Lassen Family Services (Lassen), Fresno-Madera Continuum of Care, Kings/Tulare Point in Time Report, Loyalton Family Resource Center (Sierra), Plumas Crisis Intervention & Resource Center (Plumas), San Benito-Monterey Continuum of Care, U.S. Department of Housing and Urban Development Homelessness Resource Exchange.

Status of Housing Projects (in Units) Under the Mental Health Services Act Housing Program As of April 2011

County	Total MHSA Housing Funds	Total Units in Active Application Stage or Beyond	Total MHSA Funds Committed	Percentage of Funds Intended for Projects in Application Stage or Beyond
Alameda	$14,619,200	91	$13,743,000	94%
Alpine	opted out			
Amador	$501,800	0	$0	0%
Butte	$2,173,000	0	$0	0%
Calaveras	$639,500	0	$0	0%
Colusa	$312,200	0	$0	0%
Contra Costa	$9,130,800	22	$4,590,000	50%
Del Norte	$416,700	0	$0	0%
El Dorado	$2,276,500	5	$1,080,800	47%
Fresno	$9,248,900	44	$4,875,000	53%
Glenn	$409,400	0	$0	0%
Humboldt	$1,955,300	0	$0	0%
Imperial	$2,660,000	0	$0	0%
Inyo	opted out			
Kern	$7,932,200	43	$7,187,520	91%
Kings	$2,204,100	0	$0	0%
Lake	$942,600	0	$0	0%
Lassen	$413,600	0	$0	0%
Los Angeles	$115,571,200	571	$90,472,146	78%
Madera	$2,318,200	14	$2,318,200	100%
Marin	$2,151,000	5	$725,000	34%
Mariposa	opted out			
Mendocino	$1,292,300	0	$0	0%
Merced	$2,615,400	18	$2,354,500	90%
Modoc	opted out			
Mono	opted out			
Monterey	$4,615,100	19	$3,747,748	81%
Napa	$1,827,900	18	$1,827,900	100%
Nevada*	$1,387,000	7	$1,400,325	101%
Orange	$33,158,300	43	$8,541,600	26%
Placer	$2,383,900	5	$874,300	37%

*County used interest earnings.

Status of Housing Projects (in Units) Under the Mental Health Services Act Housing Program As of April 2011

County	Total MHSA Housing Funds	Total Units in Active Application Stage or Beyond	Total MHSA Funds Committed	Percentage of Funds Intended for Projects in Application Stage or Beyond
Plumas	opted out			
Riverside	$19,077,100	60	$11,122,400	58%
Sacramento	$12,340,100	81	$11,575,000	94%
San Benito	$878,600	0	$0	0%
San Bernardino	$20,178,200	0	$0	0%
San Diego	$33,083,900	104	$18,304,270	55%
San Francisco	$7,714,400	39	$6,800,000	88%
San Joaquin	$6,339,500	0	$0	0%
San Luis Obispo	$2,583,400	0	$0	0%
San Mateo	$6,762,000	25	$2,687,350	40%
Santa Barbara	$4,577,900	30	$3,400,000	74%
Santa Clara	$19,249,300	55	$9,691,500	50%
Santa Cruz	$2,914,600	5	$800,000	27%
Shasta	$2,686,000	0	$0	0%
Sierra	opted out			
Siskiyou	$593,600	0	$0	0%
Solano	$3,868,400	15	$2,555,899	66%
Sonoma*	$4,555,500	26	$4,618,932	101%
Stanislaus	$4,807,900	48	$3,179,996	66%
Sutter/Yuba	$2,365,900	0	$0	0%
Tehama	$860,500	0	$0	0%
Trinity	opted out			
Tulare	$4,494,400	22	$1,840,000	41%
Tuolumne	$797,700	6	$797,700	100%
Ventura	$8,206,400	54	$7,951,043	97%
Yolo	$3,014,300	0	$0	0%
City of Berkeley Mental Health	$1,258,600	5	$500,000	40%
Tri-City Mental Health Center	$2,389,400	0	$0	0%
TOTAL	**$398,753,700**	**1,480**	**$229,562,129**	

Source: California Housing Finance Agency, Senate Office of Oversight and Outcomes

Los Angeles County contains a quarter of the state's population – and 40 percent of the housing already built or soon to be under the MHSA housing program. Of 1,480 units statewide, 571 are in Los Angeles County.

San Diego County, the second-most populous county, has 104 units at the application stage or beyond, the second-highest number among counties. Alameda, Sacramento, Riverside, Santa Clara, and Ventura follow in terms of the number of housing units already built or in the works.

Completed projects include the conversion of a roadside motel in Mill Valley, construction of new apartments among mature oaks in Folsom, and renovation of an old downtown Los Angeles hotel into apartments.

Housing Projects Involve $1.4 Billion in Other Funds

The Mental Health Services Act housing program money rarely stands alone. The apartments built with the money usually exist within a building dedicated to people who are low-income – but not necessarily disabled by mental illness.

Only seven projects at the application stage or beyond at CalHFA as of April 2011 will be paid for entirely with MHSA funds. In accordance with program rules, all seven are "shared" housing projects, in which residents live together in a house or share an apartment.

The projects at the application stage or beyond involve $229.5 million of MHSA housing program money – but also an additional $1.4 billion of non-MHSA money.

Since program rules restrict counties to paying for no more than one-third of the development cost of an apartment with Mental Health Services Act money, some of the $1.4 billion of non-MHSA money will cover remaining costs for units dedicated to MHSA clients.

The rest of the $1.4 billion will help pay for 3,630 housing units that are not dedicated to people with mental illness. Some of these units are reserved for senior citizens or former foster care youth, but most will be filled by people who simply do not earn enough to afford an apartment on their own. No MHSA money may be spent to build these units.

Take as an example the handsome stone-and-stucco Rancho Dorado North apartments in Moreno Valley. Of the 70 apartments finished in late 2010, 15 are dedicated to MHSA clients. Low-income residents, many of them single parents, live in the rest of the units. Riverside County invested $2.8 million of MHSA housing funds in the $21.7

million project, which includes a swimming pool and playground. Other sources of funding include tax credit equity financing, a state housing bond grant, federal economic stimulus dollars, and a federal block grant administered by the county.

Proposition 63 Funds Help Deliver Affordable Housing for Low-Income Californians

Is more affordable housing getting built in California because of the availability of the MHSA money? Or has the mental health money simply guaranteed that some apartments that would be built and rent-subsidized anyway are devoted to formerly homeless people with psychiatric disabilities?

Some small projects would not exist without the MHSA housing program imperative and funding. Especially in rural counties, the MHSA housing money drives such projects, and some are paid for entirely with MHSA money.

But in most cases, county mental health officials said they used their MHSA housing funds to reserve for mentally ill clients some apartments that would be built anyway. The MHSA housing program allocation, county officials said, simply is not big enough to drive major affordable housing construction for low-income residents without special needs.

Contra Costa County mental health officials, for example, invested $1.1 million in the 26-unit Lillie Mae Jones Plaza in Richmond in order to guarantee six units for their clients. The rest of the units are dedicated to people with extremely or very low incomes or people with HIV/AIDS.

“Had I not had the MHSA money,” said Victor Montoya, chief of adult services for Contra Costa County Mental Health Services, “I might not have been at the table, and because I was there, we’re currently filling the new apartments.”

Housing Market Collapse Elevates Importance of MHSA Funds

The MHSA funds may not drive affordable housing production, but recent economic chaos made the MHSA money pivotal to some projects.

The MHSA housing program began in 2007. Inflated housing prices began to collapse nationwide at about the same time. A wave of foreclosures ensued among homeowners who owed more on their mortgages than the market value of their home. The foreclosures ripped through the financial system: In September 2008, the large investment firm Lehman Brothers, which had invested heavily in high-risk mortgages, went bankrupt. Other banks and financial institutions tightened lending as they adjusted downward the value of their real estate holdings, making credit harder to obtain. As the economy slowed, unemployment rose.

The housing market collapse derailed the main financial engine driving affordable housing production in California. That engine is a federally-subsidized tax credit program that encourages private investment in affordable housing.

The Low-Income Housing Tax Credit Program works like this: The U.S. Internal Revenue Service gives each state an annual allotment of tax credits based on population, about $2 per person. In California, a state committee awards the tax credits to housing developers based on their project's attributes, such as whether it will serve extremely poor people, its energy efficiency, and proximity to transportation.

Project developers who "win" tax credits then go to a market of sorts, where they "sell" the credits to corporations seeking to reduce their federal tax bill. The developers try to get as close to a dollar as possible for each dollar of tax credit they sell, while the corporate investors try to pay as little as possible. Typically, the investors pay slightly less than a dollar for each dollar of tax credit. Developers then use the investors' cash to help pay down the construction loans used for multi-family housing contruction.

After real estate prices began to fall in 2007, housing construction stalled. Developers awarded tax credits did not use them or returned them. At the same time, recession cut corporate profits – and the incentive to reduce federal tax liability. The value of the tax credits slid, so that a dollars' worth of tax credit might generate only 80 cents in the market. Developers could not raise enough money with the tax credits to fund their affordable housing projects.

At the same time, cash-strapped California stopped selling bonds in order to limit debt payments. The state suspended distribution of the last $113.3 million that remained for supportive housing projects from multi-billion-dollar bonds that voters had passed in 2002 and 2006. This "pause" on bond sales temporarily dried up another key funding source for affordable housing.

The economic tumult and bond sale suspension stalled some low-income housing projects that eventually might have included apartments for homeless mentally ill clients.

But the radically changed market also elevated the significance of the Mental Health Services Act housing program money.

Developers who had not included mental health tenants in their plans reconsidered when they realized that doing so would bring badly needed financing.

“Having money attracted developers that didn’t know us,” Maria Marquez, Riverside County mental health services adminstrator, wrote in an e-mail, “and while some eventually decided they didn’t want MHSA funds and didn’t pursue the opportunities, others clearly wanted/used the funds.”

Originally, state and county officials figured the housing program would create apartment buildings across the state entirely devoted to formerly homeless people with mental illness, said CalHFA deputy director Steven Spears.

Instead, he said, the Mental Health Services Act housing program has become important “gap” financing tapped by developers struggling to find ways to pay for their projects at a time of tight credit. As a result, much of the MHSA-funded housing is scattered in communities across California, not concentrated in isolated apartment buildings.

Intended or not, such a result fits the aim of Proposition 63 to integrate into the community people seeking mental health treatment.

Lorie Shelley, California Senate

Kenny Wickham, 50, spent a decade homeless in Sacramento.
He lives now in a MHSA-funded apartment in Folsom.

County Perspectives Vary Widely

Urban County Officials Most Satisfied with Program

The county workers charged with carrying out the Mental Health Services Act express a wide array of opinions about the program's structure, suitability, and future prospects. The Senate Office of Oversight and Outcomes phoned or e-mailed the MHSA housing program managers in all 50 eligible counties to get local perspectives.

Officials in populous counties praised the program as a rare source of badly-needed funds for both construction and rent subsidies.

"I love this program," said Marquez, of the Riverside County Department of Mental Health. As of May 2011, the county had built 60 units for MHSA clients in three separate apartment buildings of 456 units.

"Can we build enough? No," said Marquez. "But hey, it's a great start and it will get a lot of people off the streets."

Her counterpart in Ventura County, Carolyn Briggs, said she wished that the state would require counties to invest a percentage of their Proposition 63 money in permanent supportive housing year after year. The county has used up nearly all of its $8.2 million share of the MHSA housing program and invested non-housing funds to build more apartments.

"It really is amazing to see how people's lives are changed," said Briggs. "My gosh, it's incredible."

"Our clinics report that once housed . . . people keep appointments, they see their doctors," said Briggs. "Some go back to school, they get a girlfriend, they get a part-time job, they go to Von's and shop for their meals, they're amazed by the independence they enjoy."

"It's much more satisfying work for everyone involved when people have stability in their lives, including housing."

In Los Angeles County, at least 14 projects involving the MHSA housing program are slated for construction in the summer of 2011. Only about $5 million of the county's $116 million remains uncommitted. The mental health officials overseeing the housing program said they would like to invest more money.

"We quit taking applications (from developers) a year ago and decided to hold on to the money we've got left in case we needed it for any existing projects," said Maria Funk, a district chief for the Los Angeles County Department of Mental Health. "This money has really helped . . . It's saved so many projects or kept them going."

Housing Program Frustrates Many Rural County Officials

Rural counties count their chronically homeless populations in the dozens or fewer, not the hundreds or thousands. Still, their mental health directors said they want permanent supportive housing and appreciate its potential to save lives.

But rural county mental health officials expressed far more frustration with the MHSA housing program than their urban colleagues.

Much of the frustration stems from the size of their allocation. Many rural counties got only a few hundred thousand dollars under the MHSA housing program because they have so few residents.

When it launched the MHSA housing program, the Department of Mental Health allowed the eight counties that received less than $300,000 to opt out of the program. Each of these eight counties has 20,000 residents or fewer. DMH officials set the threshold after they analyzed housing prices. They figured that for $300,000, a county could own and operate a single-family house for several clients.

But officials in several rural counties said the minimum allocation should have been set much higher.

That's because most non-profit developers are not willing to tackle such small permanent housing projects. A few rural counties also lack a housing authority or redevelopment agency to offer housing expertise and additional financing.

In Calaveras County, for example, Behavioral Health Services Director Rita Downs said she tried to find a non-profit developer willing to help the county build permanent supportive housing with its $639,500. But no developers were interested in a project so small, she said. Mercy

Housing officials told her that they do not build projects of fewer than 40 apartments.

Calaveras County also lacks a housing authority. These public corporations typically disburse federal rental subsidies and create and manage affordable housing for low-income households.

"There's no entity to work on this," said Downs.

To use the county's housing funds, Downs said she intends to partner with the Amador-Tuolumne Community Action Agency, a 30-year-old joint powers agency formed to tap federal funds to help low-income residents. But the community action agency does not qualify as a developer under CalHFA rules that require at least five years' experience creating affordable housing. Downs said she will ask CalHFA for an exemption.

"There are no developers who exist who meet their criteria in our county," said Downs, "and no big developers want to come to a small county."

To stay within its $639,500 budget, Calaveras County will be requesting waivers, said Downs.

"The funding model is incorrect for small counties," she said.

Other county officials say they do not have the staff to devote to preparing a CalHFA application of hundreds of pages and multiple binders.

Colusa County's $312,200 share may sit indefinitely with CalHFA, said interim county mental health director Bill Cornelius.

"I don't have the staff time or the staff expertise to meet all the administrative burdens to use it," he said, "and I don't have the money to buy the expertise to do it."

Cornelius said that if he had control of the money, he'd use it to buy and refurbish a four-unit apartment building for mental health clients. Given the low real estate prices in Colusa County now, Cornelius said he would also consider buying a large house for the 10 or so severely mentally ill county residents now living in board-and-care facilities in Butte and Sacramento counties because there is no such care in Colusa County. Such a move, he said, would save the travel cost of his employees making regular visits to those out-of-county facilities.

Like mental health directors in Lake and Lassen counties, Cornelius predicted that his county supervisors would not embrace the CalHFA application process. CalHFA treats disbursement of the MHSA money to counties as a "loan" that requires extensive underwriting and documentation. Cornelius said his initial exploration of going through CalHFA to buy the four-unit apartment building, already home to two mental health clients, did not go well.

"When they (CalHFA) started talking 'loan,'" said Cornelius, "the whole thing got quashed because county counsel didn't want the county on the hook for a loan."

One county official sought unsuccessfully to free his county's allocation from CalHFA.

Lassen County, which got $413,600 in MHSA housing program funds, asked the state Department of Mental Health for permission to use the money without CalHFA approval. Former Department of Mental Health Director Stephen W. Mayberg denied the request shortly before he retired in December 2010. In a letter, Mayberg suggested that Lassen County officials get advice from the non-profit Corporation for Supportive Housing.

At the time, Lassen officials were eyeing a former motel that could be renovated into apartments. Mental health director Ken Crandall said such a project would allow the county to house mentally ill residents now living in board-and-care facilities out of the county. But the county did not want to pursue purchase of the motel without an exemption from CalHFA, Crandall said.

Lassen officials reluctantly assigned the money to CalHFA in May 2011, he said, rather than have it revert to the state for distribution to other counties.

Some Small Counties Launch Projects, A Few Falter

Despite the hurdles, a few small counties have launched projects under the MHSA housing program.

Through personal connections, the Madera County Behavioral Health Services director learned of the availability of a house formerly used for hospice patients. Working with the city of Madera Housing Authority, the county bought the house for $250,000 and will spend nearly as much replacing the roof and making other repairs. Four mental health clients are expected to move in by August 2011.

"We appreciate the fact that the money was there and allowed us to do something we've wanted to do for a long time," said MHSA coordinator Debby Estes. "But all their (CalHFA's) processes – it takes a long time."

Napa County invested its entire $1.8 million MHSA housing allocation to reserve 18 units of a 24-unit Napa apartment building under construction in the summer of 2011. Nevada County officials intend to buy a house for several mental health clients to share, and their El Dorado County counterparts committed MHSA money to reserve five apartments in a 40-unit complex planned for Shingle Springs.

Other county projects have fallen apart. Lake County abandoned its plan to buy a foreclosed Clearlake resort with 18 cabins. In Tuolumne County, mental health officials used $500,000 of their $797,000 MHSA housing allocation to buy a parcel near downtown Sonora. They planned to build two adjacent three-bedroom homes sharing a garden and laundry room.

But in July 2011, after significant community protest that included a petition, the Tuolumne County Board of Supervisors voted to abandon the project. Mental health officials said they hope to find property elsewhere in the county for supportive housing.

Public outcry has similarly stalled or scuttled projects in Siskiyou and San Bernardino counties.

"The community will make or break your project no matter what," said Doug Fazekas, administrative manager, San Bernardino County Department of Behavioral Health.

County Officials Seek Relief from Cap on Rent Subsidies

Many officials from counties of all sizes complained to the Senate Office of Oversight and Outcomes of one program rule. That rule restricts counties to spending no more than one-third of their overall allocation to pay building operating costs and rent. Los Angeles County, for example, may spend no more than $38.5 million of its $116 million allocation on these so-called operating subsidies.

Department of Mental Health officials established the limit to encourage counties to find other sources of money to cover these costs so that more money would be available for construction. Without a limit, some counties might choose to use their funds entirely to subsidize rent, instead of building new apartments.

As the program was being created, “it was widely acknowledged that the subsidies contributed would not cover even half the number of new units predicted,” explained a Department of Mental Health official in an e-mail to the Senate Office of Oversight and Outcomes. “It was (and still is) understood that many projects would need to secure other subsidy sources.”

County officials say they understand the state’s desire to leverage the Proposition 63 money by forcing counties to seek federal and local funds. But they complain that money for operating subsidies is increasingly hard to get. In some counties, the expected wait for a federal Section 8 voucher stretches to 10 years. The recession slowed the rate at which tenants got jobs and turned back vouchers for others less fortunate to use. Congress has not funded a substantial expansion of the rental assistance program in at least a decade.

In Los Angeles County, for example, the number of Section 8 vouchers available increased just 3 percent between 2005 and 2010, from 245,405 vouchers to 252,332 vouchers, according to the U.S. Department of Housing and Urban Development.

Furthermore, whether a county mental health department acquires the vouchers for its housing projects often depends upon relationships with county housing authority officials. These agencies decide who gets vouchers, and not all prioritize the chronically homeless and mentally ill over veterans, the working poor, or other low-income groups.

Construction money is easier to find, county officials said. Permanent supportive housing projects would be easier to develop, they told the oversight office, if the Department of Mental Health loosened its cap on operating subsidy expenditures.

On June 8, 2011, the governing board of the California Mental Health Directors Association voted by consensus to ask the Department of Mental Health to rescind the proportionality requirement.

According to the Department of Mental Health, “about 10” counties have asked to spend more on operating subsidies than the state-imposed limit allows.

“Each request is considered on its own merits and about half have been granted,” DMH officials wrote to the Senate Office of Oversight and Outcomes. “Each request for an exception is handled on a case-by-case basis and is considered based on viable alternatives, potential risk and fulfillment of the program’s intent.”

"Because the requests for exception are examined and handled on a case-by-case basis," the DMH officials wrote, "DMH has not seen a need to amend the original policy to limit the use of capital funds for subsidy use."

Of Alameda County's $14.6 million allocation, $4 million may be used for operating subsidies. Robert Ratner, manager of the MHSA housing program, said all $4 million is spent, and state officials have denied his repeated requests to use some capital funds to cover operating costs.

"I could go after affordable housing developers and they'd give us 10 units (for mental health clients)," said Ratner, "but we don't have the operating subsidy money because we've exceeded the cap . . . The state having this somewhat arbitrary cap – it's problematic and I've had to say no to some really good housing developments."

Santa Clara County was granted a waiver to use capital funds for operating subsidies on one project thus far, said Robert Dolci, the MHSA housing manager. But CalHFA characterized the shifted money as capital funds, so that it still takes an annual service fee of .42 percent on the money – a sore point for Dolci.

"The one thing I'd change about the program is that once the operating subsidy allocation begins to be used up by a county," he said, "that county should be given the freedom to utilize its capital money as operational subsidy if necessary without it being subject to the fee."

Mental Health Directors Say They Are Ill-Prepared to Develop Housing

County mental health officials also complain that they are ill-prepared to build housing. The program has forced people trained as psychologists, psychiatrists, or social workers to learn the lingo and mechanics of financing and development.

"It's been a huge learning curve," said Christina Kraushar, Merced County's former assistant mental health director. "I can't begin to tell you how much I didn't want to do it."

In Riverside County, mental health services administrator Maria Marquez said she would attend development workshops, write down acronyms, then go back to the office to try to decipher meanings.

"I didn't speak the language," said Marquez.

Happily for Marquez, she discovered that a county consultant hired to write plans for spending non-housing Mental Health Services Act revenue happened to have worked previously with a major California home builder. She put him to work vetting permanent supportive housing proposals from non-profit developers and writing housing applications to CalHFA.

Other counties hired outside consultants to get expertise. They include Butte, Contra Costa, Sacramento, San Bernardino, Kings, and Tulare.

"I understand the administrative and clinical aspects of mental health . . . not real estate," said Christi Lupkes, Mental Health Services Act manager for Tulare County.
In Sacramento County, mental health division housing planner Frances Freitas said she quickly realized she needed help.

"Several counties do know what they don't know and have adjusted," she said.

Other mental health departments tapped the expertise of a county housing authority or redevelopment agency. In Los Angeles County, for example, housing program managers Maria Funk and Reina Turner said they "couldn't even follow the conversation" at the launch of the housing program.

"We had never done anything like this before," said Turner. "It was a steep learning curve for us."

A consultant who works for the city housing department helped them to bridge many gaps, she said.

Counties Need Project-Specific Technical Help

Well aware that housing development would frustrate most county mental health officials, the state Department of Mental Health arranged free "technical assistance" for counties.

With roughly $500,000 a year of Proposition 63 money earmarked for administrative costs, the state hired the non-profit California Institute for Mental Health. CIMH in turn hired the Corporation for Supportive Housing to give technical assistance. Since 2007, CSH has provided at least a couple of experts to hold four monthly calls with county officials, conduct seminars, walk county officials through the process of housing development, and visit counties for one-on-one assistance.

Some county officials expressed gratitude for the help.

In Yolo County, for example, officials have begun to consider how to use their $3 million for permanent supportive housing.

"Even though we're just negotiating with developers, I've made good use of technical assistance," said Joan Beesley, the county's MHSA program manager. "Our county is so short-staffed and hurting, we don't have the human resources to dedicate to planning how to use the MHSA housing money."

In Nevada County, mental health officials are negotiating to buy a house with some of their $1.4 million housing allocation. MHSA coordinator Michele Violett said her department relies "very heavily" on the technical assistance staff.

"They literally held our hand and helped us every single step of the way," she said. "If it was not for the technical assistance help, we would never be here."

Others said that for the first couple of years of the program, the technical assistance was too generic to help much. Only recently, some county officials said, has the Corporation for Supportive Housing staff provided the step-by-step, project-specific help they need most.

Rita Downs, the behavioral health director in Calaveras County, said that in the past, the technical advisers "just told us what to do," which wasn't much help. But a new technical adviser, she said, "seems to understand that when it's your first time, you need to have someone come and actually do it for you."

"We kept telling them that," said Downs, "and our consultant finally listened."

Anne Cory, director of Northern California programs for the Corporation for Supportive Housing, agreed that the nature of the technical assistance has changed. Designers originally assumed generic guidance offered through group trainings around the state would be sufficient. Then county workers lost travel funds to budget cuts, and it became clear that what many county officials needed was intensive help on specific projects.

"We have one to two staff working on this," said Cory, "and we get calls all day long."

Cory said she wishes that more county officials would call.

"It breaks my heart sometimes to see these counties struggling with issues we could help them with," she said. "We'd like to see them sooner rather than later and prevent some frustration."

CalHFA Praised and Panned by County Mental Health Leaders

The Mental Health Services Act housing program requires counties to work with the California Housing Finance Agency, the state's affordable housing bank. County officials divide sharply on the question of whether CalHFA's role is necessary or helpful.
When the MHSA housing program was being created in 2007, then-CalHFA director Theresa Parker encouraged legislative leaders to allow her agency to handle the program rather than the state Department of Housing and Community Development, which administers bond funds used to build supportive housing.

CalHFA officials promised flexibility and responsiveness. They told county officials that they would partner with them to help attract developers, offer loans to complement the MHSA housing money at rates cheaper than banks could offer, assess the viability of projects, invest the money set aside to subsidize rent, ensure that properties were fiscally solvent, oversee construction disbursements, and work to identify other sources of money to help pay for planning and construction. At the time, CalHFA promised to reduce or waive its usual fees and has done so consistently.

When CalHFA disburses Proposition 63 revenue assigned to it by counties, the agency treats each disbursement as a loan. CalHFA does all the work typically associated with underwriting a loan. For example, CalHFA checks the accuracy of developer cost estimates, screens buildings for structural flaws, and calculates adequate set-aside to cover rent and maintenance for 20 years.

That stringent process earned CalHFA high marks from the Bureau of State Audits in February 2011. The auditor found problems with CalHFA's single-family loan program, but praised the agency's strict review of affordable-rent apartment projects. Of the more than 500 such projects financed by CalHFA since 1975, according to the auditor, only six had to be taken over by the agency because they failed to generate sufficient rent to cover operating costs.

For its efforts on the MHSA housing program, CalHFA takes as an "administrative" fee of 1 percent of the money it dispenses to counties.

CalHFA collects two other fees. Developers pay 1 percent of the total amount of money they get from CalHFA under the program as a "commitment" fee to cover underwriting costs.

A second fee is CalHFA's annual "servicing" fee, a .42 percent charge levied each year against the amount of the original CalHFA capital disbursement. Developers pay this fee annually. For example, a developer of a project that involves $1 million of Mental Health Services Act housing program capital funds pays $4,200 each year, or $84,000 over the 20-year life of the project.

As of the end of March 2011, CalHFA had collected $5.4 million in fees:

- $3,887,300 – 1 percent administrative fees
- $960,613 – loan commitment fees
- $597,073 – .42 percent loan servicing fees

CalHFA officials said they doubt the fees collected cover the agency's investment of staff time and other resources. However, agency leaders said they view the MHSA housing program as a service consistent with the agency's mission.

CalHFA deputy director Steven Spears called the MHSA housing program labor-intensive but worthwhile. He said it has evolved considerably in response to economic woes and the needs of rural counties.

"It's working," said Spears. "It just takes time and a lot of effort."

In interviews with our office, officials in eight counties praised CalHFA for improving projects or being helpful. Those in eight other counties said they found the agency's involvement unnecessary or cumbersome.

The counties in both camps vary greatly in population, from rural to highly urbanized. The county-level praise and criticism of CalHFA reveal the great diversity of personalities, resources, politics, experience, and obstacles at play in each county and for each housing project.

For example, CalHFA won effusive praise from Santa Barbara County mental health officials. They credit the agency with stretching their $4.6 million housing allocation by negotiating for two additional MHSA units in one project. In another, CalHFA negotiated a strategy that substituted $1.25 million in federal funds for the county's MHSA housing program funds.

"We're going to be able to sponsor more supportive units in Santa Barbara County than we thought possible," said MHSA housing manager John Truman. "CalHFA found a way to make this work."

With its $8.2 million allocation, Ventura County has so far built and renovated enough apartments to house 32 formerly homeless households. Another two projects underway involve 22 apartments.

Carolyn Briggs, housing coordinator for the Ventura County Behavioral Health Department, credited CalHFA with "moving mountains." "We had developers who initially did not want to work with CalHFA," she said, "but CalHFA has come a long way in being flexible, adaptable, and creative."

Officials in Sacramento, San Bernardino, San Diego, San Mateo, Riverside, and Tuolumne also praised CalHFA's work as beneficial. Some called the agency's oversight and requirement for long-term investment crucial.

"One of the things that CalHFA does is hold us all accountable," said Marquez, of Riverside County. "You won't build a bunch of poorly maintained units in this program. You can't. It's quality housing with operating subsidies. If it's local control and there are budget cuts, a department of mental health could let that housing go."

But in eight other counties with MHSA housing program projects at the application stage or beyond, mental health officials said they would rather build housing without CalHFA.

In Santa Clara County, MHSA housing manager Robert Dolci said that the county's own Office of Affordable Housing could have handled the eight housing projects that will ultimately create 83 homes for MHSA clients. Then the county could have saved the CalHFA fee of 1 percent on the county's $19.2 million allocation, he said.

"We could have done this work cheaper on our own," said Dolci, "although I've had nothing but good experiences with their staff."

In Napa County, MHSA coordinator Felix Bedolla said he was disappointed that CalHFA did not find other funding sources for the county's 24-unit apartment complex that includes 18 one-bedroom apartments for MHSA clients. On its own, without CalHFA assistance, the county managed to leverage $2.2 million. Bedolla said CalHFA assumed an unrealistically high vacancy rate for the project, which affected how much money the county had to set aside for operating costs.

Complaints about CalHFA in Lake, Marin, Placer, San Luis Obispo, and Sonoma counties included frustration with the amount of time and work involved in the application process and the agency's failure to find additional sources of funding.

Monterey County officials called themselves the "guinea pigs" because their 18-unit Sunflower Garden project in Salinas was the first apartment complex to go through the CalHFA and DMH approval process.

"We got stuck in that wheel of bureaucracy," said Erica Padilla-Chavez, MHSA housing coordinator for the Monterey County Health Department. "The whole process would have been done more efficiently at the local level."

The county's second project – a four bedroom Salinas house dedicated to 18- to 25-year-olds with mental illness – happened to be the second shared housing project to go through the statewide process. It took a year and a half, said Padilla-Chavez. Later CalHFA and DMH created a separate, streamlined application for shared housing projects. The effort apparently saved other counties considerable time. A 2010 application for a four-unit shared housing project in Sonoma County, for example, was approved by CalHFA in two months.

"This whole program has been developing as every county puts forth an application," said Padilla-Chavez. "It's never one size fits all."

While county officials hold many disparate views of CalHFA's role, they generally agree that the agency's employees have gotten increasingly flexible, especially for rural counties.

"Since we started two years ago, the mantra has become 'ask us,'" said Kathie Denton, the Placer County MHSA coordinator. "It's gotten more evident over time. They say, 'Just ask us. Tell us what you want to do and we'll see if we can do it.'"

Financial Troubles Limit CalHFA's Ability to Help Counties

Welcomed or not by counties, CalHFA has not lived up to its own original expectations, largely due to the historic disruption in the credit and bond markets that began in 2008.

When turmoil rocked the markets in the fall of 2008, investors lost interest in buying CalHFA bonds at reasonable interest rates because they were tied to something investors wanted to avoid: California real estate.

As a result, CalHFA was forced to suspend single-family and multi-family programs dependent upon new bonds that could no longer be issued.

This prevented CalHFA from continuing to help counties to stretch their Proposition 63 dollars with below-market rates. One example: The non-profit developers of the Fairmount apartment building near downtown Oakland had planned to use a series of loans through CalHFA to get a $600,000 mortgage. Instead, the Fairmount developers ended up paying higher rates through Wells Fargo Bank. The refurbished 35-unit building includes five units dedicated to MHSA clients.

"We haven't been able to leverage loans for developers as we hoped," said Laura Whittall-Scherfee, chief of CalHFA multi-family programs.

Eventually, CalHFA hopes to resume low-interest lending, she said. In the meantime, said Whittall-Scherfee, her loan officers have provided a significant amount of training and coaching for county staff, on top of the formal technical assistance program. Her staff helps county employees and developers meet the deadlines and requirements to apply for other funding sources, such as tax credits. And CalHFA staff calculates each project's annual anticipated operating deficit. Without CalHFA, counties would have to do this work or contract it out.

With input from stakeholders and CalHFA, the state Department of Mental Health establishes program rules, said Whittall-Scherfee, and CalHFA tries to be as flexible as possible without jeopardizing a project.

"No one's interests are served if a project isn't viable," she said.

Some Counties Build Supportive Housing on Their Own

Several counties have proven they can build permanent supportive housing without the help of CalHFA.

Neither California nor the federal government keeps a trustworthy tally of the number of permanent supportive housing units that exist in California outside the MHSA housing program. But some counties including San Francisco, San Mateo, and Ventura have used local funds and persuasion to create such housing on their own.

Since June 2009, for example, the city of San Diego's downtown redevelopment agency has convinced every affordable housing developer seeking its subsidies to set aside 15 percent of new units for the homeless and mentally ill.

Furthermore, on the belief that housing *is* treatment for homeless people with severe mental illness, seven counties devoted non-housing Proposition 63 revenues to create permanent supportive housing.

The seven counties have invested at least $15 million of Proposition 63 revenue to create at least 200 units outside of the state-administered process.

Most of the counties used what they call "one-time" money. This is money that the state Department of Mental Health could have but did not spend on administration and returned instead to counties. (Proposition 63 reserved 5 percent of revenues for state administration annually.) Other counties built housing with Mental Health Services Act money earmarked for services. Under Proposition 63, such services include provision of shelter.

A county-by-county description of the housing deals financed outside the housing program:

Sacramento County spent $4 million of its one-time money to create 70 units of housing for MHSA clients, including those at the Ardenaire Apartments and Martin Luther King, Jr. Village.

Mercy Housing built both projects. Stephan Daues, who oversees Northern California projects for the non-profit developer, said the financial agreements underpinning both projects were slightly different than they would have been under CalHFA, but still solid and designed to last at least 15 years. At Ardenaire, for example, Mercy chose to set aside about $350 a unit to cover the costs of a new roof, water heaters, paint, and other future repairs. CalHFA's reserve requirement is $500 per unit.

Santa Clara County combined $1.075 million of MHSA one-time funds with an equal amount from the county general fund. The $2.15 million paid for 42 units of housing dedicated to homeless, mentally ill people for 55 years.

For some tenants, Santa Clara County helps pay the rent – and thus maintenance costs – with Mental Health Services Act funding earmarked for services. Rent in other units is subsidized with a CalHFA-mandated operating reserve designed to last 20 years.

Ventura County used $1 million of excess MHSA state administrative funds to reserve 10 units for mental health clients in a colorful, award-winning apartment building in Oxnard. Most of the money – $800,000 – was set aside to subsidize rent for tenants for more than 15 years. The money is now projected to last only 12 years, however, due to low interest rates on invested funds.

Alameda County has committed to housing construction $3.4 million of MHSA money that could otherwise be spent providing services. The projects are expected to create 31 units, said housing services director Robert Ratner. Section 8 vouchers will cover the rent for some tenants. The county will subsidize the rent for others with MHSA funds earmarked to provide services.

Orange County spent a total of $3.6 million in one-time funds on housing, including $500,000 to help non-profit groups bolster their administrative ability to create permanent shared supportive housing projects. The county committed $2 million for construction of 35 apartments, and another $1.1 million to subsidize operation of those apartments. Twenty-four of the apartments will be subsidized for at least 15 years with Section 8 vouchers obtained by the city of Anaheim.

Contra Costa County spent $1.6 million of the state excess administrative funds to reserve 11 apartments for mental health clients in Walnut Creek and Richmond. Section 8 vouchers will guarantee affordable rent for some tenants. Those vouchers last 10 years, and the county set aside a reserve of money in case the vouchers are not renewed for an additional 10 years. To cover rent for the other clients, the county will use Proposition 63 revenue earmarked for services.

In **Sutter County**, which partners with Yuba County to provide mental health services, officials have yet to use any of their housing money held by CalHFA. Instead, the counties invested nearly $400,000 of other Mental Health Services Act funds to buy and renovate a Yuba City duplex. Six formerly homeless people, once frequent users of emergency rooms, now share the duplex.

"We used general MHSA dollars, so we could move quicker and didn't have to go through CalHFA," said Tom Sherry, director of human services for Sutter County. He noted that in community meetings, consumers ranked housing as a top priority for MHSA dollars.

Sherry's department signed a 50-year agreement with the Sutter County Housing Authority to maintain the project, a beige duplex with geraniums along its walkway.

"It's like a dream come true," said Renee, a 43-year-old formerly homeless and drug-addicted tenant. Her bedroom wall features the message "love as if you've never been hurt" in pink letters.

"There's no place I'd rather live," she said.

Under an agreement with the housing authority, the behavioral health department must cover any maintenance, utility, or management costs not covered by the tenants' rent. The department set aside $10,000 as a contingency fund.

California Housing Finance Agency

The 39-apartment Homebase on G project in Lompoc includes 8 units dedicated to formerly homeless people diagnosed with serious mental illness. Santa Barbara County invested $1.1 million of Proposition 63 revenue in the project.

Economic and Political Changes Buffet the Housing Program

Competition for Dollars Tightens as Other Mental Health Funds Disappear

Clearly, the counties' need for technical assistance and experience with CalHFA varies widely. But nearly all officials we interviewed said they struggle with an inherent tension in the program: Every dollar devoted to housing is a dollar that will not be spent providing counseling and other services at a time of overwhelming need.

That widespread feeling stems from the recent erosion of funding for mental illness treatment in California.

Voters passed the Mental Health Services Act in 2004 to augment services – not to replace the money already being spent by counties to help the mentally ill. The act dictated that the revenue from the tax on millionaires be used to improve services and extend help to previously neglected people. It prohibited the county and state from using the new revenue to replace existing investments in mental health services. Before Proposition 63, most funding for county mental health programs came from state sales tax, vehicle license fees, the federal Medicaid program, county general funds, and private insurance payments.

In the past several years, as recession gripped the nation, California and individual counties pared expenditures on mental health services by hundreds of millions of dollars. The National Alliance on Mental Illness estimated that between 2009 and 2011, California cut its general fund investment in mental health by $587 million.

As other funds fell away, budget cuts left Mental Health Services Act revenue as the key financial underpinning for mental health programs in many counties.

According to the Department of Mental Health, in 2005-06, Proposition 63 revenue made up just 9 percent of county budgets for supportive mental health services (not including medical services such as hospitalization). Four years later, the Proposition 63 revenue made up 71 percent of county budgets for non-medical mental health services.

Now even that revenue is falling. Revenue from the Mental Health Services Act dipped from $1.4 billion in 2009-10 to $1 billion in 2010-11.

MHSA Funds Used to Bridge Budget Gap

It is not a dearth of millionaires that will diminish Proposition 63 funds for counties in 2011-12. For the first time, state leaders will divert some of the revenue to cover state costs and help solve the state budget deficit.

Desperate to bridge a $27 billion budget gap, in March Governor Jerry Brown and the Legislature enacted a bill that shifts $861 million in Proposition 63 revenue away from the counties. It carves out a one-year exemption to the initiative's ban on supplanting revenue. The legislation, AB 100 by the Committee on Budget, redirects the $861 million to pay for three federally-mandated mental health programs that would otherwise be paid for by the state general fund.

State elected officials could do so without a statewide vote, because Proposition 63 may be amended by a two-thirds vote of the Legislature so long as the change furthers the intent of the act.

AB 100 described the shift as necessary to "avoid deeper reductions in programs that serve individuals with severe mental illness." It declared the funds "not subject to repayment."

The $861 million shift does not affect the $400 million held by CalHFA for the housing program.

County Officials Worry about Finding Funds to Serve Clients

As they cope with this latest loss of funds, county mental health officials – including strong supporters of permanent supportive housing – say the Mental Health Services Act housing program has begun to feel like a luxury the community cannot afford.

"Caseloads are crushing, we're turning away indigent people for services, which I never thought would happen," said Maria Marquez in Riverside County. "There are just too many competing demands."

Marquez praised permanent supportive housing as a smart investment that saves lives. Her county has built 60 units with MHSA money. But if the housing money wasn't secure with CalHFA, she said, the department would be forced to consider using it to sustain core services.

It may be a reflection of the demand for these dollars that even though counties have always had the option of assigning additional MHSA dollars to CalHFA in order to build housing, only one county has done so.

San Francisco bolstered its $7.7 million share of the MHSA housing program with another $2.2 million that could have been used for counseling and other services.

"Housing is like gold here in the city," said Maria Iyog-O'Malley, former MHSA coordinator for the county of San Francisco. The rundown single-room occupancy hotels of the Tenderloin neighborhood used by many clients with mental illness "are not real conducive to recovery," she said. "It's great for folks to be able to walk into their own new place with new paint, furniture, their own bathroom."

The Tri-City Mental Health Center, which serves Pomona, La Verne, and Claremont, assigned $3.2 million more to CalHFA beyond its original $2.4 million allocation. Tri-City officials said they have just begun to plan how to use the money.

In May 2011, Alameda County officials said they plan to transfer an additional $600,000 to CalHFA. But officials in other counties say the demand for services is too great.

"We have far more demand and need for (service) money than we can actually fund," said Carolyn Briggs of Ventura County. "There's no extra."

As dollars devoted to mental health services become more dear, county officials are also starting to worry about how they will provide services to the people living in the permanent supportive housing created by the MHSA housing program.

Those services are paid by Proposition 63 dollars through the "community services and supports" component of the initiative. Counties are supposed to use these dollars to help people unserved or underserved by the existing mental health system and to eliminate racial or ethnic disparities in access to those services. The bulk of Proposition 63 revenue goes to "community services and supports" – in 2009-10, for example, $1 billion of the $1.4 billion raised by the tax on millionaires was spent on these kinds of direct services.

"The biggest challenge for us is connecting people who move into projects with appropriate services," said Robert Ratner of Alameda County. "You can't keep stretching service dollars to people who aren't getting services."

In Sonoma County, mental health department managers are trying to maximize their service dollars by having formerly homeless people serve as peer counselors.

Proposition 63 dedicates some money to workforce education and training in order to end a shortage of qualified mental health workers in California. So Sonoma County plans to train formerly homeless clients to mentor the eight new residents of the new Windsor Redwoods apartments, built with MHSA housing money.

"The big difficulty was that the (housing) money didn't come with service money," said Sonoma County MHSA housing program coordinator John Lynch. "The operating subsidy money goes to pay the rent – it doesn't subsidize any services."

Department of Mental Health Stripped of Most MHSA Oversight

In its first four years of existence, the Mental Health Services Act housing program was buffeted by extreme changes in California's housing market and economy. Now, with half of the $400 million spent or committed, a radical restructuring of state-county relations is under way. This realignment holds uncertain implications for the housing program.

When the Legislature and Governor Jerry Brown agreed to use $861 million of Mental Health Services Act revenue to help the state general fund in 2011-12, the enacting legislation included a significant long-term change: It drastically curbed the power of the Department of Mental Health to oversee county implementation of the Mental Health Services Act.

The legislation (AB 100, Committee on Budget) deleted the Proposition 63 requirement that counties get regular approval from DMH for their three-year MHSA spending plans. The bill passed in March 2011 with an urgency clause. Now counties get their funds directly from the state Controller, without having to win DMH approval.

Stripping the state of its approval role furthers the intent of Proposition 63 "by increasing funding mental health services at the local level," according to the Department of Finance.

Accordingly, the Legislature cut from 5 percent to 3.5 percent the amount of Proposition 63 revenue the state can spend to cover its administrative costs. The change cost the Department of Mental Health $24.6 million and 123 jobs.

The Department of Mental Health retained a small role in oversight of the Mental Health Services Act – including management of the housing program. The seven jobs involved in the housing program, however, eventually may be affected by the budget cut, DMH officials said.

Officials with the California Mental Health Directors Association question whether the department still has oversight of the MHSA housing program. They say AB 100 may have compromised the department's authority to review county plans for providing services to the mentally ill people they house.

The directors' association has asked the department to clarify its authority. In the meantime, the governor seeks to go much further in shrinking the state's role: In May 2011, Brown proposed abolishing the Department of Mental Health entirely and shifting all mental health programs to counties.

It is not clear what role, if any, the state would retain in the MHSA housing program if the Department of Mental Health were abolished. In January 2012, the governor is expected to issue a more detailed proposal about the department's future.

County Mental Health Directors Vote to Restructure Housing Program

These big economic and political changes, as well as the varied experiences of counties, make it unlikely that the Mental Health Services Act housing program will continue as structured once the $400 million is spent.

When they launched the Mental Health Services Act housing program, state officials hoped it would help at least 10,000 people off the streets. They also assumed that the original $400 million investment was just a start, and that counties would shift more money to CalHFA to keep building permanent supportive housing for at least 20 years.

That optimism has faded. In a February 2011 background paper about the program, the mental health department and CalHFA concluded that "continued funding of the program will be a locally driven decision as a county determines whether to assign additional MHSA funding beyond the original $400 million."

The state's concession that individual counties will decide for themselves whether to maintain the investment reflects the reality of Proposition 63, which does not require counties to create permanent supportive housing, and the varied experiences of the counties.

The California Mental Health Directors Association governing board declared in June 2011 that it wants the program modified or ended.

The board voted to recommend that the Department of Mental Health make a couple of huge changes to the program. One would give county mental health officials the option to take their money back from CalHFA and use it for any purpose authorized by Proposition 63 – not necessarily housing. The board also recommended that DMH free counties from the current one-third restriction on operating subsidies.

The association's board typically gives each county one vote. These recommendations about the housing program passed on consensus votes, without a roll call, because support was so strong.

"The program is not working for all counties," said Patricia Ryan, executive director of the mental health directors' association. "In order for us to continue to provide permanent supportive housing, we have to fix the way the program is structured."

Counties need more flexibility, said Ryan. For some populous counties with housing expertise, the program has been a terrific success, she said. Other county officials have struggled to build housing, and still others have shown ambivalence about the program. Ryan suggested that the program be reviewed and adjusted soon. Such a review, she said, is especially urgent as Governor Brown moves to give counties control of all community mental health programs.

Some County Officials Seek to Manage Housing Program through a County-Run Joint Powers Authority

In the face of such uncertainty, some county officials say they've got a better vehicle to handle investments in permanent supportive housing.

They suggest that a relatively new joint powers authority replace CalHFA and the Department of Mental Health as banker and overseer of an MHSA housing program.

The new legal and financial entity was created by six counties in July 2009 and now involves 38, including Los Angeles. The counties came together to carry out three mental health initiatives with Proposition 63 money: suicide prevention, stigma reduction, and student mental health. The efforts are not explicitly required by Proposition 63. But in 2007, after extensive public hearings, the state decided to direct counties to invest a combined $160 million in the efforts.

The state Department of Mental Health originally proposed that it take the county MHSA funds and handle the statewide efforts itself. But after considerable delays and only 19 counties showing a willingness to assign their funds to the department, county and state officials embraced the idea of a county-run joint powers authority.

Called the California Mental Health Services Authority (CalMHSA), the joint powers authority now includes counties that contain 90 percent of the state's population.

The authority has a volunteer board made up of county mental health directors and a small staff. The authority contracts with the George Hills Company to handle most administrative work.

The state Department of Mental Health contracted with the joint powers authority in April 2010 to carry out the three statewide efforts. In May 2011, the authority announced that it had selected a number of non-profit and private groups with which it would negotiate contracts to do such work as launch media awareness campaigns, establish hotlines, educate paramedics and emergency room workers, and create social marketing campaigns.

According to former program director Edward Walker, counties so far have assigned a total of $124 million of Mental Health Services Act funds to the authority.

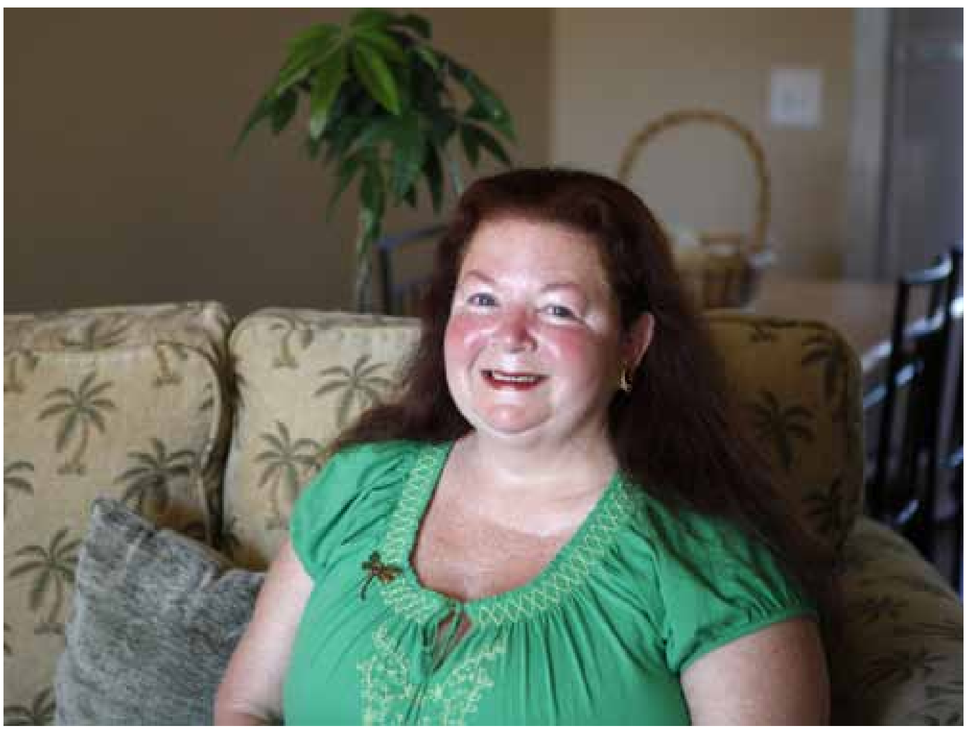
Walker and other supportive housing experts said the authority could handle administration of a housing program. It could simply hold and dispense county funds, leverage other local housing funds, or hire the necessary expertise to review and approve housing plans.

"CalMHSA as an option would be a reasonable one to consider," Walker said. "It's a very workable model."

Wayne Clark, Monterey County behavioral health director, said the joint powers authority is a "natural" entity to handle housing.

"We can do it faster, better, smarter (than the state)," he said. "We can more effectively leverage local resources, and we can create regional partnerships among counties to bring projects to fruition in rural areas."

However, most of the rural counties struggling with the MHSA housing program have yet to join the joint powers authority. It is not clear whether or how the fledgling organization could replace the underwriting or service plan expertise of CalHFA and DMH.



Lorie Shelley, California Senate

Judi Gray, 63 once spent a week sleeping in Capitol Park. "From there to here, it's been a long road," she said in her home at Folsom Oaks Apartments in Folsom.

Oversight Office Recommendations

Exempt Rural Counties with Less Than $1 Million

Although some county officials chafe at the additional bureaucratic requirements of CalHFA, the agency's involvement gives the state consistent oversight. The CalHFA approval process forces developers and county officials to wrestle with such issues as who pays when a tenant damages an apartment and how to handle potential tenants who owe money to local utilities. Such planning improves the odds that buildings will not fall into disrepair or disorder over time.

Clearly, some counties have the knowledge, wherewithal, and desire to build permanent supportive housing and structure long-lasting deals without the help of CalHFA.

The state, nonetheless, retains an interest in overseeing the use of large amounts of Proposition 63 revenue. For that reason, the oversight office recommends that all counties allocated more than $1 million continue to meet CalHFA underwriting requirements for their projects. The larger quantities of money warrant tighter oversight.

But the oversight office recommends that the Legislature give the 11 counties that each got less than $1 million the option, not the mandate, to work with CalHFA to spend their share of the $400 million.

Their situation differs from more populous counties primarily in that they do not have enough money to build projects big enough to attract developers. In some cases no local government entity exists to offer housing development expertise.

Those counties should not be restricted by the CalHFA rules – but they still should be required by the Department of Mental Health to spend the money now deposited with CalHFA to house mental health clients who are homeless or at risk of being so. Exempting rural counties from the CalHFA process may enable them to get the highest housing return on their relatively small allocations. Construction or rehabilitation of an apartment building or house may not be the best option in a county where officials are wary of 15- to 20-year maintenance and rent-subsidy obligations.

Rural counties could, for example, use all of their allocation to help pay rent and provide services to mental health clients living in privately-owned apartments. Under such "master leasing," the county behavioral health department makes sure the landlord gets paid. The practice is currently banned under the MHSA housing program rules.

But master leasing could allow counties to provide homes for nearly as many people as would be possible with the purchase or construction of a house. For example, in Colusa County, where the median rent is $762 a month, the county's $312,200 MSA housing program allowance could be used to pay $595 a month for two people for 20 years. A survey conducted in late January 2011 found a single chronically homeless person in the county.

Without CalHFA involvement, the state loses its leverage to force counties to plan for 20 years of operating costs when they buy or renovate a house or apartment building.

However, we believe it is worth the risk to give the least-populated counties more flexibility. So long as county officials are put off by the CalHFA application process, no housing gets built. Funds may sit at CalHFA gathering interest indefinitely. (No program rule limits how long counties may keep money at CalHFA without using it.)

Nine of the 11 least-populated counties in the housing program failed to submit applications in the past four years, and the other two put applications on hold. The 11 counties together have $6.7 million pending at CalHFA that could be used to house homeless people. These counties together account for 1.3 percent of the state's population.

The counties' new joint powers authority could provide guidance and oversight to these smaller counties.

Alternatively, the Legislature could consider allowing these 11 counties to use their funds to subsidize rent, with no additional state oversight. But if the counties choose to build, buy, or renovate buildings, then the Legislature could require the county mental health department to get CalHFA approval.

From the start, state officials have noted that rules may need to be changed for small counties. In their initial 2007 report to the Legislature about the program, they wrote, "While it is anticipated that the MHSA

Housing Program is sufficiently flexible to meet the needs of small counties, alternative program provisions may be developed in the future if they are needed to address the unique needs of small counties."

Maintain Operating Subsidies Cap – with Flexibility

Officials in at least eight counties said that they would like the state to eliminate the cap that now restricts counties to using no more than one-third of their allocation for operating subsidies (as opposed to capital costs such as buying property and building apartments).

In Monterey County, for example, the local housing authority locks up Section 8 vouchers for the apartment building that it operates, making such assistance hard to obtain for new MHSA-funded housing.

To finish its first apartment building under the MHSA housing program, the Monterey County behavioral health department used the entire $1.5 million available for operating subsidies. On the second project, county officials want the freedom to use their remaining $900,000 in capital funds for operating subsidies if necessary.

As of June 2011, Monterey County officials said they had asked for a waiver and were awaiting a response from the state Department of Mental Health and CalHFA.

Many county officials – especially those who have spent nearly all of their MHSA housing program allocation – make a strong case for easing the restriction on rental subsidies. It seems counter-productive to allow a rule intended to encourage leveraging of funds to block a housing development if county officials have tried and failed to get those other sources of funding.

(Under the MHSA housing program rules, county officials and developers must prove to CalHFA, with documentation, that they have tried to obtain other sources of funding to help cover operating and maintenance costs for each project.)

State officials said they fear that lifting the cap will weaken the counties' ability to push developers to pursue other sources of funds. They said a rule change would discourage the creation of new apartments, because as more funds are used to subsidize rent, less is available for construction. State officials also said they worry about unintended consequences. If freed to use all of their funds to subsidize rent, some counties could conceivably move mentally ill, homeless tenants into privately-owned apartments and pay the rent indefinitely. That would create an internal conflict in the MHSA housing program rules, which prohibit counties from using their funds to rent existing apartments.

The Senate Office of Oversight and Outcomes endorses the MHSA housing program goal of maximizing the number of new or refurbished apartments dedicated to mental health clients for decades to come.

There are several reasons to emphasize new construction with public dollars:

- New apartments can be designed to accommodate services. MHSA-funded housing may include, for example, room for counseling sessions or community gatherings.
- Once built, MHSA-funded apartments remain affordable for many decades, while leases may be limited to a few years.
- County mental health departments seek to build new housing close to bus routes, grocery stores, and amenities that help people live independently. But leasing is limited to willing landlords whose properties may be in isolated, high-crime neighborhoods not conducive to recovery.

In recent months, the DMH and CalHFA have taken a flexible approach to the one-third cap on operating subsidies. They consider county requests for waivers case by case.

We applaud this approach, and encourage the state agencies to tell county officials that a waiver is possible.

The oversight office agrees with Department of Mental Health officials who argue that there is no need to lift the cap, so long as waivers are possible and projects are reviewed individually.

However, the oversight office believes state officials should consider easing the cap for those counties that have spent 80 percent or more of their original allocation. Large urban counties left with just a few million dollars or smaller counties that have spent all but their last few hundreds of thousands of dollars may struggle to structure projects under the existing rules, just as rural counties with small allocations have struggled.

There is precedent for such flexibility. The interest that counties earn on funds invested by CalHFA is not subject to the capital/operating subsidy ratio. Nor is any money that counties assign to CalHFA beyond their original share of the $400 million.

Put Responsibility to Build Housing on Agencies that Know How

Many county mental health departments have struggled mightily to arrange housing construction and renovation under the MHSA housing program. Most lack employees with housing development experience.

To carry out the MHSA housing program, mental health directors in many counties tapped the expertise of their local housing authority. But not all counties have such expertise, and in some cases internal politics hinder teamwork.

To minimize the effort county mental health directors must invest in mastering the details of housing development, the oversight office recommends that the state Legislature find ways to reward county housing authorities and local economic development agencies for creating permanent supportive housing, whether it gets built with Proposition 63 revenue or another source of money.

Mental health departments should be consulted on the location and design of such housing. They should choose the tenants and provide services. But county mental health directors should not be forced to learn the nuances of housing development to negotiate with developers and oversee projects.

Counties could follow the model of the Centre City Development Corporation, the public, non-profit agency created by the city of San Diego to improve downtown. The CCDC's guidelines ask developers of new affordable housing projects to set aside 15 percent of apartments for the mentally ill and chronically homeless. The guideline is not mandatory, but developers of all six projects approved since the guideline was passed in June 2009 have complied. As a result, 293 units of permanent supportive housing have been or will be built, some funded in part with MHSA housing program dollars.

The state also could ask voters to approve housing bonds, as has been done in the past, to generate a pool of money to be awarded to non-profit developers with permanent supportive housing project proposals. Or, as the Corporation for Supportive Housing has suggested, legislators could create a dedicated revenue source – such as a real estate document recording fee – to finance affordable housing, some of it restricted to homeless, mentally ill residents.

Lorie Shelley, California Senate

Sacramento County invested $500,000 of Proposition 63 revenue in the construction of the Folsom Oaks Apartments in Folsom.

Conclusion

Counties Control Future MHSA Investments in Housing; Borrowing Heavily Against Revenues Not a Sensible Option

The Senate Office of Oversight and Outcomes concludes that a steady annual investment of Proposition 63 dollars in permanent supportive housing would help end chronic homelessness in California. It also fits Proposition 63's aim of putting people plagued by mental illness on a path to recovery.

However, counties will determine whether the MHSA housing program continues.

Our office sees no way to mandate a county investment without amending Proposition 63, which would require a two-thirds vote of both houses of the Legislature and possibly a vote of the people as well. The state thus far has interpreted the act to give counties discretion over whether to participate in a state-run permanent supportive housing program.

Housing advocates have weighed other options. In 2006, Senator Darrell Steinberg (D-Sacramento), a co-author of Proposition 63, suggested "securitizing" Proposition 63 revenue to raise money for housing construction. California could borrow $1 billion or more, he argued, and use some of the revenue generated each year by Proposition 63 to pay it back, with interest, over time.

Legal experts at the Department of Justice dampened enthusiasm for that idea. They concluded that using Proposition 63 revenue to pay off debt would be inconsistent with the initiative's purposes and thus require statewide voter approval.

There are other concerns. Counties can only spend so much money on permanent supportive housing each year, given the time demands of each project. Therefore, it makes little sense to use tens of millions of Proposition 63 dollars to pay interest on debt to create a billion-dollar pile of money for housing. Counties could stretch the Proposition 63 dollars further by setting aside some of their service funds each year for housing and allowing it to accrue interest while they develop housing projects.

But borrowing a smaller amount of money might make good fiscal sense in the future, once counties gain the relationships and expertise to build housing more quickly.

"If we were ever to a place where we had the housing capacity and there was a statewide commitment (to housing construction)," said Steinberg, "maybe we wouldn't need to borrow as much upfront capital through securitization, and we could reduce homelessness at a much more rapid pace."

Ideally, the most populous counties with the largest concentration of chronically homeless residents will continue to voluntarily invest Proposition 63 revenue in permanent supportive housing. Officials in many of these counties – including Los Angeles, San Diego, San Francisco, and Sacramento – have expressed such an intention. An improved economy and upgraded CalHFA credit rating would ease such investments.

New Relationships and Knowledge Will Make Housing Easier to Build When Economy Improves

Regardless of whether counties deposit more Proposition 63 dollars with CalHFA in order to build housing, many people involved in the Mental Health Services Act housing program predict that the payoff from the original $400 million investment will continue.

Difficult as it was to manage for some counties, the original program forced county officials to create new partnerships. Mental health and housing development staff have learned or will learn a great deal about one another's work. Quality housing and the successful recovery of clients should ease community acceptance of future projects. The MHSA housing program created a model and prepared county officials to replicate it.

"The relationships are really important," said John Truman, who handles the program for Santa Barbara County. "We didn't have the relationships before. . . We have the services, the housers have the housing, so us working together can only be a good thing."

Many county officials said they are optimistic that when a bustling economy swells Proposition 63 coffers again, counties will reinvest in housing.

It may not all be permanent supportive housing. Some county officials said that housing is also needed for people waiting for permanent homes.

"Permanent supportive housing is a wonderful idea because it works," said Erica Padilla-Chavez of Monterey County. "It's got a proven track record. However, there are people we need to provide transitional housing for now. And the MHSA housing program funds are not designed for that."

"We need," she said, "to assess what we need."

Appendix 1

Characteristics of the Chronically Homeless

Surveys conducted by volunteers around the country in late January 2010 found 649,917 homeless Americans. About two-thirds were counted in emergency shelters or transitional housing. The rest lived on streets, in abandoned buildings, on river banks, and other places not meant for human habitation.

Research shows that of homeless people seeking services, roughly 20 percent are military veterans.

The nationwide surveys in 2010 characterized roughly 17 percent of the nation's overall homeless population as chronically homeless.

The U.S. Department of Housing and Urban Development defines a "chronically homeless" person as one who is unaccompanied (couples do not qualify, nor do families, or people with children), with a disabling condition, who has been either continuously homeless for a year or more or who has had at least four episodes of homelessness in the past three years. People in permanent supportive housing or transitional housing do not qualify as "chronically homeless."

Among the chronically homeless, a disabling condition often includes severe mental illness and chronic drug or alcohol abuse. For example, a study of 2,703 chronically homeless people in Philadelphia in the early 2000s found that 53 percent had a medical record with a diagnosis of a serious mental illness, and 37 percent had a record of both a serious mental illness and substance abuse.

University of Pennsylvania professor of social policy and psychology Dennis P. Culhane, who has studied homelessness extensively, estimates the rate of severe mental illness among the chronically homeless at 30 percent to 40 percent.

The profile of disabled homeless people – those most likely to fall into long-term or repeated homelessness – hasn't changed much in the past 10 years. Researchers say a majority suffer lifetime mental health and addiction problems. Their medical problems frequently include HIV/AIDS, hepatitis-C, tuberculosis, asthma, or hypertension.

Researchers also have connected long-term homelessness to unemployment, poor family support, an arrest history, and premature death.

Appendix 2

Who May Live in MHSA Housing?

To qualify to live in housing funded by the Mental Health Services Act housing program, a person first must be either an adult with a serious mental illness or a child under 18 with a severe emotional disorder.

State law defines "serious mental illness" as "a mental disorder that is severe in degree and persistent in duration, which may cause behavioral functioning which interferes substantially with the primary activities of daily living, and which may result in an inability to maintain stable adjustment and independent functioning without treatment, support, and rehabilitation for a long or indefinite period of time."

A child who displays psychotic features, risk of suicide, or risk of violence due to a mental disorder qualifies for MHSA housing. The law also defines a child with "severe emotional disorder" as one who has been removed from his or her home or is at risk of removal and also shows substantial impairment in at least two of the following: self-care, school functioning, family relationships, or the ability to function in the community.

In addition to suffering from a mental disorder, a person must be homeless or at risk of homelessness to qualify for MHSA-funding housing.

Homeless means "lacking a fixed and regular nighttime residence," according to the rules of the MHSA housing program. This includes people living on the streets or in a shelter, motel, or temporary place with no tenant rights. A person may be at risk of homelessness because they are leaving foster care, a juvenile justice facility, jail, prison, hospital, or some other medical or psychiatric facility.

Some counties – not all – reserve MHSA housing for people enrolled by their local mental health department in what are known as "full service partnerships." A full service partnership is a commitment by the county to use Proposition 63 revenue to give a client all the services and support they need to achieve their goals. Full-service partnerships embody the "do whatever it takes" approach to helping people become more stable, productive, and resilient.

To qualify for a full-service partnership, an adult must have a mental illness so severe they are likely to require public assistance. In addition, they must be inadequately served by the county mental health department at the time of enrollment, at risk of homelessness, involved in the criminal justice system, or frequently seeking mental health treatment at hospitals or emergency rooms.

Not all counties devote their MHSA-funded housing to full service partnership clients. But all residents of the MHSA-funded housing must be both 1) diagnosed with a serious mental illness and 2) homeless or at risk of being so.

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Senate Office of Oversight and Outcomes

1020 N Street, Suite 560

Sacramento, CA 95814

Telephone: (916) 651-1518

Facsimile: (916) 324-5927

http://www.sen.ca.gov/oversight

Special Counsel John Adkisson • john.adkisson@sen.ca.gov

Office Manager Cathy Cruz • cathy.cruz@sen.ca.gov

Principal Consultant John Hill • john.hill@sen.ca.gov

Principal Consultant Dorothy Korber• dorothy.korber@sen.ca.gov

Principal Consultant Nancy Vogel • nancy.vogel@sen.ca.gov

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