

This bill:

- 1) Authorizes \$4.68 billion in bond funds, upon voter approval on the March 5, 2024 ballot, to be issued and sold for the following purposes:
 - a) Making grants administered by DHCS for the acquisition of capital assets for, and the construction and rehabilitation of, unlocked, voluntary, and community-based treatment settings and residential care settings.
 - b) Making up to \$865 million in grants administered by the Department of Housing and Community Development for the purposes of constructing and rehabilitating housing for veterans and others who are experiencing homelessness or are at risk of homelessness and living with behavioral health challenges.
 - c) Up to 3% of the net proceeds for general administrative costs.
 - d) Paying the costs of issuing bonds, paying the annual administration costs of the bonds, and paying interest on the bonds.
- 2) Provides that a housing project, funded by these bond funds, shall be a use by right pursuant to AB 2011, as specified. The project proponent shall pay prevailing wages to all contractors and subcontractors performing work on the project.
- 3) Creates the Behavioral Health Infrastructure Act Finance Committee, made up of the Controller, the Treasurer, and the Director of Finance, for purposes of authorizing the issuance and sale of bonds.

COMMENTS:

- 1) *Author's statement.* "The connection between homelessness and behavioral health challenges is significant. Among Californians experiencing homelessness, nearly 40,000 have a severe mental illness and over 36,000 have a chronic substance use disorder. Among homeless veterans, over 50% suffer from mental health issues and over 70% are affected by substance use disorder. In response to this behavioral health crisis, I am proud to partner with Governor Newsom and Senator Eggman in proposing a major transformation of California's behavioral health care system. The Behavioral Health Infrastructure Bond Act of 2023 would be the single largest expansion of California's behavioral health system. The Act will expand access to high quality, unlocked, community –based residential care for those with the greatest needs. Additionally, it will dedicate funding to veterans with behavioral health needs who are currently experiencing or at risk of experiencing homelessness. The \$4.68 billion bond includes \$3.815 billion in

funds that would be used to build 10,000 new clinic beds and homes. The bond also includes \$865 million dedicated to house veterans with serious mental illness or a substance use disorder. Voters would need to approve the Behavioral Health Infrastructure Bond Act of 2023 at the March 5, 2024 statewide primary election.

- 2) *Homeless Veterans.* A majority of California's veterans are considered cost-burdened and pay more than 30% of their income towards housing-related costs. Additionally, veterans face higher risks of homelessness than the general population and the homeless point-in-time count for 2022 estimated that there were 10,395 veterans experiencing homelessness in California.
- 3) *California's Housing Crisis.* California has the largest concentration of severely unaffordable housing markets in the nation and the statewide average home value reached a new record in June 2022 at \$793,300. To keep up with demand, HCD estimates that California must plan for the development of more than 2.5 million homes over the next eight years, and no less than one million of those homes must meet the needs of lower-income households (more than 640,000 very low-income and 385,000 low-income units are needed). For decades, not enough housing was constructed to meet need, resulting in a severe undersupply of housing.

As a result of the severe housing shortage, millions of Californians, who are disproportionately lower-income and people of color, must make hard decisions about paying for housing at the expense of food, health care, child care, and transportation—one in three households in the state don't earn enough money to meet their basic needs. A lack of affordable housing is the biggest contributor to homelessness. As housing costs continue to rise, rent becomes less affordable for lower-income households, who are forced to live beyond their means (paying more than 30% of income on housing costs) or are pushed out of their homes, leading to rapid increases in homelessness. Variation in rates of homelessness cannot be explained by variation in rates of individual factors such as poverty or mental illness, however, cities with higher rents and lower rental vacancy rates (i.e., tighter housing markets) are directly linked to higher per capita rates of homelessness.

- 4) *Existing state veterans housing programs.* Proposition 41 created VHHP Program and authorized \$600 million in GO bonds to fund multifamily affordable housing, transitional housing, and supportive housing to veterans. To date, the VHHP Program has provided six rounds of funding, administered by HCD in collaboration with the California Housing Finance Agency (CalHFA) and CalVet.

No funding remains from the bond. The program funded 3,058 VHHP housing units for veterans and their families with 2,026 of those reserved for extremely low-income veterans, 813 for very low-income veterans, and 219 for low-income veterans. Additionally, 80% of the housing units developed with VHHP funds are restricted to veterans experiencing homelessness. While the VHHP funds are helping to create much-needed affordable housing, transitional housing, and supportive housing for California's veterans, the program will run out of funding unless additional resources are approved for the VHHP program. The 2022-23 budget included \$100 million in one-time general fund dollars for the program (\$50 million in 2022-23 and \$50 million in 2023-24).

- 5) *Need for mental health beds and existing DHCS programs.* According to a recent study¹, people with mental health conditions require different levels of psychiatric beds, depending on the needs of the patient. Some need short term needs, while others have chronic, longer-term needs. California currently has a shortage of beds for all needs; according to this study, the state needs 4,767 beds for both acute and subacute needs, and an additional 2,963 community residential beds for those with chronic needs. The report recommends that the state prioritize psychiatric bed infrastructure for those with the greatest needs, and particularly those that have the most difficulty accessing beds (such as those involved in the criminal justice system). Additionally, the report notes that California should require specified data collection to track the impact of its investments and makes sure funds are meeting the needs of the target populations.

Presently, DHCS operates the following homelessness and housing-related programs:

- a) *Behavioral Health Continuum Infrastructure Program (BHCIP).* This program finances the construction, acquisition, and rehabilitation of real estate assets or investments needed for mobile crisis infrastructure to expand the community continuum of behavioral health treatment resources.
- b) *Community Care Expansion (CCE).* This program is part of a statewide investment in infrastructure funding to address homelessness, support healthcare delivery reform, and strengthen the social safety net. CCE has two main focuses: (1) the CCE Capital Expansion Program which funds the acquisition, construction, and rehabilitation of residential care settings including funds to establish a capitalized operating subsidy reserves; and (2) the CCE Preservation Program intended to immediately preserve and prevent the closure of existing licensed residential adult and senior care

¹ RAND Corporation. *Adult Psychiatric Bed Capacity, Need, and Shortage Estimates in California.* 2021. Available at: https://www.rand.org/pubs/research_reports/RRA1824-1-v2.html

facilities, including Residential Care Facilities for the Elderly, Adult Residential Facilities, or Residential Facilities for the Chronically Ill.

- c) *Housing and Homelessness Incentive Program (HHIP)*. Medi-Cal managed care plans can earn incentive funds for making investments and progress in addressing homelessness and keeping people housed. Managed care plans and the local homeless Continuum of Care, in partnership with local public health jurisdictions, county behavioral health, Public Hospitals, county social services, and local housing departments must submit a Homelessness Plan to DHCS and identify how these funds would prioritize aging and disabled homeless Californians.
- 6) *New GO Bonds for behavior health beds*. This bond bill would authorize \$4.68 billion in GO bonds, except as noted below, for purposes of constructing and rehabilitating unlocked, voluntary and community based treatment settings and residential care settings. According to the author, these funds will help fund 10,000 new clinic beds and homes for those with the most severe health and substance abuse disorders.
- 7) *Publicly available funds for affordable housing*. Prior to 1974, the federal government invested heavily in affordable housing construction. When those units began to deteriorate, the Housing Community and Development Act ended most new construction of public housing and the Housing Choice Voucher Program (Section 8) was created in its place. This new program allowed eligible tenants to pay only a portion of their rent (based on their income) and shifted funds from public housing authorities to the private sector. The goal was to eliminate concentrations of low-income people in housing developments. In 1981, the Reagan administration dismantled federal affordable housing funding. From 1978 to 1983, the funding for low- to moderate-income housing decreased by 77%. In 1970, there were 300,000 more low-cost rental units (6.5 million) than low-income renter households (6.2 million). By 1985, however, the number of low-cost units had fallen to 5.6 million, and the number of low-income renter households had grown to 8.9 million, a disparity of 3.3 million units. Federal investments have not gone back up to pre-1978 levels.

At the state level, California has invested significantly in affordable housing construction and rehabilitation in recent years through the passage of one-time discretionary actions in the budget and the passage of voter approved bonds.

Only in the last few years have the Legislature and Governor allocated General Fund dollars to affordable housing programs. Beginning in 2019, an unprecedented \$8 billion from the General Fund has gone to a variety of

affordable housing programs. The Veterans and Affordable Housing Bond Act of 2018 (Proposition 1), authorized \$3 billion to fund state affordable housing programs and \$1 billion for the CalVet program, which provides mortgages to veterans. All of the funding from the bond will be fully allocated by the end of 2023. Proposition 2 of 2018 authorized the state to issue \$2 billion in General Obligations bonds against revenues from the Mental Health Services Act for purposes of funding the No Place Like Home Program (NPLH). Those funds supported the construction of over 7,000 supportive housing units and the funds are now exhausted.

It should be noted that of these investments, only funds from the Affordable Housing and Sustainable Communities program (AHSC), federal and state low income housing tax credits, and funds from SB 2 (Atkins, Chapter 364, Statutes of 2017), are ongoing sources of funding.

These investments, while critical, have not made up for decades of disinvestment from the federal level. Significant ongoing investments are necessary to meet the current undersupply of housing affordable to lower-income families.

- 8) *New GO bonds for veterans housing.* This bill would provide up to \$865 million of the \$4.68 billion for the construction and rehabilitation of housing for veterans and others who are experiencing homelessness or are at risk of homelessness and are living with a behavioral health challenge. Additionally, the bond provides that housing projects funded by this bond will be eligible for a by right approval process for specified commercial corridors, so long as project proponents pay all contractors and subcontractors prevailing wages for any proposed rehabilitation or construction.

It is not clear why the bill specifically calls out one streamlined housing approval process, given that housing projects could utilize any streamlined approval they are otherwise eligible for under existing law. Further, any changes to the streamlining aspects of this bill would be subject to voter approval. *Moving forward, the author may wish to consider removing these provisions.*

- 9) *Other housing bond measures.* Two other housing bonds are moving through the process this year: (a) SB 834 (Portantino), which dedicates \$25 billion in general obligation bonds, subject to voter approval, for homeownership opportunities, including \$18 billion for mortgage loans for first time homebuyers and \$7 billion in infrastructure loans for new home construction, as specified, and (b) AB 1657 (Wicks), which authorizes the Affordable Housing

Bond Act of 2024 to place a \$10 billion housing bond on the March 5, 2024 primary ballot to fund production of affordable housing and supportive housing. *Given the dire need for funding for affordable housing and similar to other housing bonds, moving forward, the author may wish to consider increasing the overall housing bond allocation in order to increase funding for existing affordable housing programs to support lower income households and homeless populations more broadly.*

10) *Double referral.* This bill was also referred to the Senate Governance and Finance Committee.

RELATED LEGISLATION:

SB 222 (Hill, Chapter 601, Statutes of 2019) — prohibited housing discrimination on account of military or veteran status under the Fair Employment and Housing Act (FEHA). Also defined a Veterans Affairs Supportive Housing (VASH) voucher as a source of income for purposes of FEHA, and in so doing, prohibited landlords from discriminating against a tenant based on their use of a VASH voucher to pay rent.

SB 3 (Beall, Chapter 365, Statutes of 2017) — authorized the issuance of \$4 billion in general obligation bonds for several affordable housing programs under the Veterans and Affordable Housing Bond Act of 2018. Approved by voters at the November 6, 2018 election, this included a \$1 billion increase in the bond authority allowed under the CalVet Home Loan Program.

AB 639 (Pérez, Chapter 727, Statutes of 2013) — authorized the Veterans Housing and Homeless Prevention Act of 2014 which voters approved through Proposition 41. Additionally, restructured the Veterans' Bond Act of 2008 (Proposition 12) and provided for the issuance of \$600 million in general obligation bonds to support affordable, supportive, and transition multifamily housing for veterans and their families.

SB 1572 (Wyland, Chapter 122, Statutes of 2008) — established the Veterans' Bond Act of 2008 which California voters approved as Proposition 12. Authorized \$900 million in general obligation bonds intended to help veterans purchase single family homes, farms, and mobilehomes through CalVet Home Loan Program.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

POSITIONS: (Communicated to the committee before noon on Wednesday, July 5, 2023.)

SUPPORT:

California Professional Firefighters
Steinberg Institute

OPPOSITION:

None received.

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