

Building the Capacity for Scaled Impact: Laying the Foundations to Mobilize Billions in Debt Financing Under Proposition 1

Executive Summary

Dedicating a portion of the Innovation Fund to foundational strategy, data, and financing infrastructure is a force multiplier. It increases the effectiveness of all subsequent grantmaking, reduces execution risk, and creates the conditions under which relatively modest public dollars can unlock orders of magnitude more capital—particularly through sustainable debt financing once core elements are in place.

Proposition 1 fundamentally changes both the authority of the Commission and the expectations placed upon it. Voters, the Governor, and the Legislature have signaled a clear demand for transformation in California’s behavioral health system—not incremental improvement layered onto existing structures. In this context, the Commission’s decisions over the next 12–24 months, particularly regarding the Innovation Fund, will have outsized and lasting consequences.

This paper identifies **nine** interrelated, system-level issues that must be addressed to unlock that transformation. These include governance and alignment; capital strategy and leverage; data and measurement; **who pays—when and where**; public voice and legitimacy; the link between strategy and funding decisions; Proposition 1 transition risk; innovation integrity; and operational capacity. These issues—governance and alignment; capital strategy and leverage; data and measurement; clarity around who pays and who provides care; public voice and legitimacy; the link between strategy and funding decisions; Proposition 1 transition risk; innovation integrity; and operational capacity—are not discrete problems. They form a tightly connected set of prerequisites for impact. Weakness in any one area materially constrains the effectiveness of the others.

The core conclusion is that the Commission must intentionally allocate **approximately 20 percent of the Innovation Partnership Fund** as a **time-limited, five-year investment** in building the **strategic, data, and financing infrastructure** required for scale. This is not an ongoing operating commitment, but a one-time capitalization of core capabilities.

This foundational work—governance alignment, statewide measurement, capital strategy design, and financing infrastructure—can only be built once. When developed deliberately over a defined period, it positions the Commission for long-term strategic impact well beyond the life of the Innovation Fund. In particular, it enables the Commission to

responsibly mobilize **billions of dollars in sustainable debt financing** for capital-intensive needs such as facilities, housing-linked services, and system infrastructure, long after the initial investment has been made.

Without shared decision principles, a credible statewide measurement architecture, and a coherent capital strategy, the Innovation Fund risks replicating historical patterns: well-intentioned grants that generate activity but fail to deliver durable, system-level change. With these foundations in place, however, the Commission can evolve from a grantmaking body into a strategic capital steward—capable of attracting, structuring, and deploying large-scale public and private investment in service of statewide outcomes.

Section Map (I–IX)

- **I. Governance and Alignment** – Establishing shared decision norms, roles, and strategic coherence
 - **II. Money and Leverage** – Positioning the Innovation Fund as catalytic capital
 - **III. Data and Measurement** – Building a statewide baseline and accountability architecture
 - **IV. Who Pays—When and Where?** – Clarifying financial and delivery responsibility across the system
 - **V. Public Voice and Legitimacy** – Grounding strategy in lived experience and external evidence
 - **VI. From Strategy to Funding** – Translating priorities into disciplined portfolio decisions
 - **VII. Proposition 1 Transition Risk** – Realigning strategy to new authority and expectations
 - **VIII. Innovation Integrity** – Ensuring innovation drives measurable system change
 - **IX. Operational Capacity** – Aligning internal and external capacity with ambition
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To achieve this, the Commission should explicitly dedicate approximately 20 percent of the Innovation Fund to:

- Designing and implementing statewide data and measurement systems that establish baselines, track outcomes, and inform ROI-oriented decision-making;
- Developing a disciplined capital strategy that enables leverage of public, private, philanthropic, and debt capital through durable financing structures;
- Establishing portfolio frameworks, incentive alignment tools, and governance gates that ensure innovation funding is additive, measurable, and scalable; and
- Supplementing internal operational capacity with targeted external expertise necessary to execute these functions at the required level of sophistication.

Governance, Funding, Data, Strategy, and Capacity in a Post–Proposition 1 Environment

Purpose of This Paper

The purpose of this paper is to frame, in a clear and structured way, the core issues the Commission must address in the post–Proposition 1 environment before making consequential funding and programmatic decisions—particularly with respect to the Innovation Fund.

This paper is not a critique of individual programs or staff efforts. Rather, it is an attempt to step back, diagnose systemic challenges, and articulate the foundational conditions that must be in place if the Commission is to fulfill its expanded mandate and deliver meaningful, measurable improvements in mental health outcomes for Californians.

Proposition 1 did more than create new funding streams; it altered expectations. Voters, the Governor, and the Legislature have signaled a clear desire for transformation—not continuation of existing patterns. That transformation will not occur unless the Commission aligns internally, modernizes its decision frameworks, and deliberately shifts from incremental grantmaking toward strategy-driven, data-informed, and leverage-oriented action.

What follows outlines nine interrelated issues that should be addressed as part of a refreshed strategic planning process.

I. Governance and Alignment

The Problem

The Commission is not currently functioning as a fully aligned, effective working group.

What Is Broken

In the past seven months, the Commission has experienced a significant change in composition, with many new Commissioners appointed following Proposition 1. These new members bring valuable and diverse perspectives—including expertise in substance use disorder, housing, aging, veterans, youth, and lived experience—but there has been no structured process to integrate these perspectives into a shared vision.

At present, the Commission lacks:

- Shared operating norms for decision-making
- Clear agreement on roles and responsibilities between the full Commission and its committees
- A consistent cadence for strategic versus tactical decisions

As a result, discussions about strategy are fragmented across agenda items and committees, and Commissioners are often asked to vote on funding decisions without a shared understanding of how those decisions fit into an overarching plan.

Why It Matters

Without alignment at the top, downstream decisions become ad hoc. Funding choices appear arbitrary, priorities shift from meeting to meeting, and disagreements become personalized rather than principled. Over time, this dynamic erodes trust among Commissioners and weakens the Commission’s credibility with external partners.

What “Solved” Looks Like

A functional governance structure would include:

- A clearly articulated Commission identity and mission in the post–Proposition 1 environment
- Agreed-upon decision principles that answer three core questions: what the Commission funds, why it funds it, and how success is judged
- Shared priorities that committees can implement consistently without revisiting foundational debates

II. Money and Leverage

The Problem

The Commission lacks a coherent capital strategy for deploying the Innovation Fund across its major funding categories, limiting its ability to function as true catalytic capital.

Current Challenges

The \$100 million Innovation Fund risks being treated as a conventional grant program rather than as a strategic capital vehicle. There is no unified approach across MHWA,

MHSSA, Advocacy, and Research funding to leverage these dollars through public–private partnerships, credit enhancement, debt instruments, or blended finance structures.

In the absence of clear eligibility and exclusion criteria, the Fund also risks supporting projects that primarily shift costs from other funding sources rather than driving genuine system-level change.

Why It Matters

Deploying approximately \$20 million per year into a behavioral health ecosystem that already spends on the order of \$200 billion annually will not materially alter statewide outcomes unless those dollars are intentionally leveraged and strategically deployed.

Desired Future State

A disciplined capital strategy would position the Innovation Fund as a catalyst for outsized impact across MHW, MHSSA, Advocacy, and Research portfolios. This would include clear eligibility and exclusion rules to prevent cost-shifting; defined leverage mechanisms to attract private, philanthropic, and other public capital; and durable financing structures that extend beyond one-time appropriations.

III. Data and Measurement

The Problem

California lacks a comprehensive, system-wide understanding of mental health needs, service capacity, gaps, outcomes, and costs.

Current Challenges

There is no statewide, county-by-county picture that integrates demand for services, available capacity, outcomes achieved, and resources deployed. Decision-making therefore relies on fragmented datasets and program-level reporting.

Why It Matters

Without a shared baseline and consistent measurement, progress becomes narrative-driven rather than evidence-based. The Commission cannot credibly set priorities, evaluate effectiveness, or advocate for appropriate levels of sustained investment.

Desired Future State

The Commission could advance a statewide measurement architecture that establishes baseline estimates of need, clear visibility into service capacity, standardized outcome measures, and cost and return-on-investment indicators.

IV. Who Pays—When and Where?

Access, service, and outcomes gaps in California’s behavioral health system are compounded by fragmented financing and delivery structures. The state lacks a clear, shared understanding of **who currently pays for care versus who should pay for care**, as well as **who provides care versus who can—and should—provide it** across different settings, acuity levels, and populations.

This lack of clarity obscures accountability and weakens incentives. It makes it difficult to design interventions that are both effective and financially sustainable, and it contributes to persistent cost-shifting rather than durable solutions.

Addressing this issue raises fundamental questions about roles and responsibilities, including:

- What role should schools, workplaces, and other non-clinical settings play in screening, assessment, early intervention, and prevention—and where are the highest-impact opportunities to reach people sooner?
- How should responsibility be divided between providers delivering mild-to-moderate services and those treating serious and persistent conditions, and does the current allocation reflect today’s needs, capacities, and settings of care?
- Where are financing responsibilities misaligned with service delivery, and how can those misalignments be corrected to improve access, outcomes, and efficiency?

Clarifying who pays, when, and where is essential to closing access gaps, improving outcomes, and enabling sustainable financing approaches—including the responsible use of leverage and debt financing over time.

V. Public Voice and Legitimacy

The Problem

The Commission lacks an objective, scalable way to assess public sentiment and lived experience across California.

Current Challenges

Funded providers, advocacy organizations, and special interest groups disproportionately shape public input, while individuals and families most affected by mental health challenges are underrepresented. At the same time, the Commission hears less frequently from scholars, philanthropic investors, and leaders from other states and countries with proven, best-in-class models.

Why It Matters

When public voice and expert insight are filtered through a limited set of stakeholders, priorities can become distorted and unrepresentative.

Desired Future State

A credible public engagement and learning framework would combine broad public input with structured exposure to external expertise and innovation, informing strategic priorities and funding decisions.

VI. From Strategy to Funding

The Problem

Funding decisions are not consistently grounded in a rational, data-driven allocation framework.

Current Challenges

Commissioners are often asked to vote on grants without shared priorities, comparative scoring, or clear assessments of incentives, leverage, risk allocation, or long-term sustainability.

Why It Matters

When funding decisions are disconnected from strategy and incentive alignment, innovation becomes incremental rather than transformative, and accountability for results is weakened.

Desired Future State

The Commission could operate with a disciplined portfolio framework that defines strategic funding categories; applies consistent evaluation criteria; explicitly assesses incentives, leverage, and risk-sharing; and uses ROI-style metrics where appropriate.

VII. Proposition 1 Transition Risk

The Problem

The Commission's Strategic Plan predates Proposition 1 and has not yet been reassessed to reflect new mandates and Commission composition.

Why It Matters

Early funding decisions made without explicit alignment risk locking in priorities and constraining future options.

Desired Future State

A rapid, Proposition 1–aware strategic reassessment would integrate new Commissioner perspectives and explicitly tie committee workstreams to reaffirmed priorities.

VIII. Innovation Integrity

The Problem

Innovation funding is at risk of repeating historical patterns that have not delivered system-level transformation.

Current Challenges

Past initiatives have lacked shared definitions of innovation, standardized outcome measures, and clear pathways to adoption and scale.

Desired Future State

Innovation funding would be governed by clear criteria emphasizing additivity, measurability, and system-change potential, supported by evidence-based governance gates.

IX. Operational Capacity

The Problem

The Commission's operational capacity may not yet match the ambition of its strategic objectives.

Current Challenges

The Commission lacks sufficient internal infrastructure to design and implement statewide measurement systems, execute sophisticated financing strategies, and manage an innovation portfolio with rigorous oversight.

Desired Future State

The Commission could supplement internal capacity with targeted external expertise and align staff structure and skills with expanded responsibilities.

Closing: A Path Forward

A Vote-Ready Framing for the Commission

The Commission is not being asked to choose between action and planning. It is requested that a time-limited, five-year investment of approximately 20 percent of the Innovation Partnership Fund be authorized to build the strategic, data, and financing foundations that will determine whether the remaining 80 percent—and future capital mobilized through debt and leverage—can achieve lasting, statewide impact.

A clear Commission action would:

- Affirm the 20 percent allocation as a **one-time foundation investment**, not an ongoing operating expense;
- Direct staff to sequence this work over a defined five-year period with clear milestones and governance checkpoints; and
- Signal the Commission's intent to evolve from incremental grantmaking toward long-term capital stewardship capable of mobilizing billions in sustainable financing once foundational elements are in place.

This decision preserves near-term momentum while materially increasing the effectiveness, scale, and durability of all future investments.

What We Agree On

- Proposition 1 fundamentally changes the Commission's authority and expectations
- Alignment, data, and leverage are prerequisites for impact
- Strategy must guide decisions—not the reverse

What We Do Next

- Refresh the Strategic Plan to reflect Proposition 1
- Establish shared decision principles and funding frameworks
- Build the data, measurement, and financing foundations required for transformation

What We Are Being Careful About

- Acting before priorities and metrics are aligned
- Making decisions without a system-level framework
- Confusing activity with progress