

## California's State Budget for Fiscal Year 2010-2011: Another Long Budget Year

It looks like another long budget year for the state. On May 14, the Governor released his mid-May revision of the proposed budget for Fiscal Year 2010-2011, with changes in the budget based on revenues received from the current tax year. According to the Revision, the state is facing a \$17.9 billion deficit, and the Governor wants a \$1.2 billion budget reserve, leaving the state to close a total \$19.1 billion budget gap. The Governor's budget proposes no new taxes or significant new revenue proposals; most of the budget deficit would be met via \$12.4 billion in spending cuts. The good news is that the Administration is rescinding the January proposal to trigger various deep program cuts if \$6.9 billion in new federal funds were not received by July 15, 2010; the bad news is that the Governor instead proposes a new package of cuts in addition to a number of other cuts proposed in the January draft budget that are still on the table.

The good news: the following major "trigger reductions" from the January budget were withdrawn in the May Revision:

- Reduce Medi-Cal eligibility to the minimum allowed under current federal law and eliminate most remaining optional benefits for adults.
- Eliminate the In-Home Supportive Services (IHSS) program.
- Eliminate the Healthy Families Program.

The bad news: the following is a summary of the major cuts proposed to Health and Human Services programs; some are newly proposed in the May Revision and others are held over from the January draft budget:

### Medi-Cal

- Increases cost sharing (\$218.8 million) via 1) \$5 co-payments on physician/clinic/dental/pharmacy visits (\$118.2 million); 2) \$50 co-payments on emergency room visits (\$41.5 million); and 3) \$100 per day co-payments and \$200 maximum for hospital stays (\$59.1 million). Provider rates will be decreased by the amount of the co-pays, and hospitals will be required to provide services regardless of whether the co-payment is made. **The cost-sharing proposal will apply to children. This proposal requires a federal waiver.**
- Imposes utilization controls (\$90.2 million) including: 1) Elimination of specified over-the-counter drugs (\$13 million); 2) a maximum annual benefit on hearing aids at \$1,510, durable medical equipment at \$1,659, urological supplies at \$6,435, and wound care supplies at \$391 (\$3.8 million); 3) limit on prescriptions to six per month (\$4.2 million); and 4) limit the number of physician or clinic visits to 10 per year (\$69.2 million). **We believe that some OTC drug limitations will apply to children and are awaiting clarification on this. Limitations on services will not apply to children with full-scope Medi-Cal, but could apply to other children; we are awaiting clarification on this as well. These changes require a State Plan Amendment to the federal government.**
- Makes other program changes (\$213.7 million) including: 1) enroll seniors and people with disabilities in managed care (\$137.3 million); 2) reduce radiologist rates to 80% of Medicare (\$10.5 million); 3) freeze hospital rates at current level (\$64.9 million); and 4) cease paying for Medicare Part B premiums for beneficiaries whose income exceeds the

Medi-Cal eligibility threshold by less than \$500 per month (\$1 million). This also reflects loss of \$76 million in savings from not adopting various January proposals. **The proposal for mandatory managed care enrollment of people with disabilities at this point does apply to children; there are approximately 75,000 children statewide in disability-related Medi-Cal aid codes (primarily those on SSI) who are not already enrolled in managed care plans. Many of these children are believed to be CCS-eligible, as well. This proposal would be part of the federal 1115 waiver process.**

### Healthy Families Program

- Restores \$63.9 million to Healthy Families Program, and \$3.9 million to the CCS program, due to rescission of the Administration's budget proposal to reduce Healthy Families eligibility from 250% of the Federal Poverty Level to 200% of FPL. **This proposed reduction would have violated the Maintenance of Effort provision in the federal health care reform law.**
- Proposes to increase monthly premiums in Healthy Families for families between 200 and 250% of FPL by \$18 per child (\$54 maximum per family with 3 or more children) for increased funding to the program of \$13.3 million. **The federal government has expressed concerns that the premium increase, particularly when coupled with the increased co-pays discussed below, may violate the Maintenance of Effort provision in the national health care reform, but has made no decision yet on whether the state can implement the increases.**
- Proposes to reduce Healthy Families by \$3.2 million by increasing emergency room co-payments from \$15 to \$50 (\$2.5 million) and adding hospital inpatient services co-payments of \$100 per day with a \$200 maximum (\$0.7 million).
- Would retain the proposal from the Governor's January budget to eliminate the Healthy Families vision benefit. **The federal Maintenance of Effort provision applies to eligibility and eligibility processes but not to benefits.**
- Proposes a one-time increase of \$25.8 million from the state and local First 5 California Children and Families Commission for children aged 0-5 years in the Healthy Families Program between 200 and 250% of FPL. The total requested contribution for FY 2010-11 is \$81.4 million.

### Department of Mental Health

- Restores \$452.3 million in General Fund to the EPSDT Program and the Mental Health Managed Care Program, as a result of lack of adoption of the January budget proposal to transfer funds from Proposition 63 to these programs.
- Proposes to suspend the AB 3632 mandate, for \$52 million in reduced General Fund expenditures. AB 3632 mandates counties to provide mental health services to children who need them in order to succeed in school. Under federal law, it appears that responsibility to provide mental health services to special education services (i.e. for children with IEPs) will fall on schools.

### Department of Developmental Services

- Proposes a one-time increase of \$50 million, provided by state and local First 5 California Children and Families Commissions, for children receiving early intervention services through the Department of Developmental Services.
- Retains the earlier budget proposal to reduce Regional Center spending by \$25 million in state General Fund, increasing last year's reduction to 4.25%, with details to be developed by a DDS stakeholder group.

### **In-Home Supportive Services**

- Proposes to achieve \$750 million in General Fund savings in IHSS by July 1, 2010; the reductions would be developed with stakeholder consultation and enacted prior to July 1. This proposal would replace the Governor's original budget proposals to (1) eliminate IHSS services for anyone with a Functional Index Score below 4.0; and, (2) reduce state participation in wages of IHSS workers to the state minimum wage. The program currently serves 489,972 recipients, with 385,074 providers and 2,330 county and state staff. (Note: The state is appealing recent court decisions that ruled against the state in efforts to limit IHSS eligibility and worker wages.)

### **CalWORKs**

- Proposes to eliminate the CalWORKs program effective October 1, 2010, with a reduction of \$1.6 billion in state General Funds. With the elimination of CalWORKs, the state would lose \$3.5 billion in federal TANF matching funding in 2010-11, growing to \$3.8 billion in 2011-12. This proposal would eliminate benefits for 500,000 to 600,000 families (including about 1.1 million children) who receive assistance from the program. CalWORKs provides temporary cash assistance, job training, education, child care, and employment programs to families who are unable to meet basic needs (i.e. shelter, food, clothing) on their own.
- Given the proposal to eliminate CalWORKs, rescinds the Governor's January Budget proposals in the program, including: (1) reducing the monthly grant payments by 15.7 percent, or from the current level of a maximum of \$694 (the same amount in real dollars for grants in 1989-90) for a family of three in a high-cost county to \$586; (2) reducing the level at which the state reimburses child care providers; and, (3) eliminating the Recent Noncitizen Entrants program, which provides benefits to legal immigrants. The Administration had said that if the Legislature rejects the proposal to eliminate CalWORKs, it will pursue the cuts in grants.

### **Response to the May Revise**

The response to the Governor's May budget broke down on party lines, with Democratic legislative leaders referring to the budget as "dead on arrival", stressing the need to look at additional sources of revenue and/or elimination or delay of certain tax breaks as well as at deep budget cuts, and many state Republicans lauding the Governor for maintaining fiscally conservative principles in the midst of tough financial times.

In its review of the revised budget, the nonpartisan Legislative Analyst's Office (LAO) expressed its opposition to elimination of CalWORKs and child care subsidies, stating, "These programs are core pieces of the state's safety net, and we therefore recommend that the Legislature reject

these proposals.” The LAO analysis (at [http://lao.ca.gov/reports/2010/bud/may\\_revise/may\\_revision\\_051810.pdf](http://lao.ca.gov/reports/2010/bud/may_revise/may_revision_051810.pdf)) called for consideration of additional revenues to “ameliorate” the deepest cuts:

**“More Revenues Could Ameliorate the Most Severe Cut Proposals.** The Governor presents Californians with a clear vision of the types of severe program reductions that are necessary if the budget were balanced without some additional revenue increases this year. Alternatively, some of the most severe cuts proposed by the Governor could be avoided by adopting selected revenue increases—from fee increases and other nontax revenues, changes to tax expenditure programs, delays in previously scheduled tax reductions or expirations, and targeted tax increases. We urge the Legislature to put these types of solutions in the mix.”

The revenue approaches suggested by the LAO include:

- delays in previously scheduled tax reductions or expirations by one year;
- changes to tax expenditure programs (credits, exemptions, and deductions intended to produce a particular policy benefit through the tax code) via elimination of those lower priority programs in order to preserve more critical ones;
- fee increases such as community college fee increases and a wildland fire protection fee that would place a fee on owners of structures in areas where the state has responsibility for wildland fire management; and
- targeted tax rate increases such as increased taxes on alcohol and permanently aligning the Vehicle License Fee, currently increased temporarily under provisions of the February 2009 budget package, with local property tax rates (as it represents a tax on property).

Legislative hearings on the budget were conducted in May and June and the budget committees in both houses, dominated by Democrats, rejected most of the major cuts, but no budget deals have been made to meet the constitutionally mandated budget deadline of June 15. As of July 23, the state still has no budget and most budget items remain open, as the state awaits details from the federal government on the size of federal funds the state can expect over the next year.

Good sources of information on the budget include:

- California Department of Finance: <http://www.dof.ca.gov/>
- Legislative Analyst’s Office: <http://lao.ca.gov/laoapp/main.aspx>
- California Budget Project: <http://www.cbp.org/>

LA Soman; 7/23/10