



May 18, 2010

**2010-11 Budget May Revision
California's Working Families and Vulnerable Populations Again At-Risk**

On May 14, Governor Schwarzenegger issued the May Revision to the 2010-11 budget. The May Revision projects a \$19.1 billion General Fund deficit comprised of a \$7.7 billion shortfall in the current budget year and an estimated \$10.2 billion shortfall for the fiscal year ending June 30, 2011, leaving a reserve of \$1.2 billion. In releasing his May Revision "budget solutions" the Governor declared he would not sign a state spending plan that did not include both reforms to the public employee pension system and the state budget process. In addition, the May Revision explicitly avoids any tax increases.

By statute, the May Revision reflects updated revenue, expenditure and caseload numbers for both the current and next budget years. California has been particularly hard hit as a result of the most severe recession since the Great Depression. Economic recovery in the state is predicted to be longer and slower than the rest of the country, with unemployment likely to remain persistently high.

To deal with the \$19.1 billion budget deficit, Governor Schwarzenegger proposes the following:

\$12.4 billion in expenditure reductions and program eliminations;

\$3.4 billion in additional federal revenues;

\$3.4 billion in funding shifts, alternative funding, and other revenues.

It should be noted the proposed expenditure reductions total approximately 65 percent of the Governor's solutions and primarily target health and human services programs.

The Governor proposes to delete several "triggers" from the January Budget that would have resulted in additional program reductions and eliminations unless the state received \$6.9 billion in federal funds. Instead of eliminating the Healthy Families Program (HFP), the May Revision proposes to eliminate CalWORKs and child care programs (not the State Preschool Program or state-funded after-school programs). In addition, complete elimination of the In-Home Supportive Services (IHSS) program is spared; however, the Governor proposes \$750 in unspecified General Fund reductions.

The May Revision assumes the federal government will approve continuation of the Federal Medicaid Assistance Percentage (FMAP) and several American Recovery and Reinvestment Act (ARRA) provisions resulting in the state receiving additional federal funds (total \$3.4 billion).

With the passage of federal health care reform earlier this year, several of Governor Schwarzenegger's January Budget proposals specifically directed at reducing eligibility and enrollment in both the Medi-Cal and Healthy Families Program have been withdrawn. The new federal laws – the Patient Protection and Affordable Care Act and the Education Reconciliation Act of 2010 – mandate states to maintain eligibility standards for both their Medicaid (Medi-Cal in California) and Children's Health Insurance Program (CHIP) or forfeit all federal funding for these programs.

The following is a brief summary and overview by selected program areas of the May Revision budget solutions that would impact working families, low-income individuals, and vulnerable populations. Updates will be forthcoming as more details emerge.

Medi-Cal

Medi-Cal provides health care services to qualified low-income individuals, the majority of whom are families with children and the aged or disabled. There are approximately 7.3 million Medi-Cal beneficiaries. The January budget proposal would have reduced Medi-Cal eligibility to the minimum required by federal law.

The May Revision proposes \$750 million in Medi-Cal cost containment measures including:

Service limits and utilization controls

- Eliminate certain over-the-counter drugs and nutritional supplements;
- Maximum annual benefit cap on hearing aids at \$1,510, durable medical equipment at \$1,604, incontinent supplies at \$1,659, urological supplies at \$6,435, and wound care supplies at \$391;
- Limit prescriptions (except life-saving drugs) so six per month;
- Limit the number of physician or clinic visits to ten per year.

Increase cost sharing

- \$5 copayments on physician/clinic/dental/pharmacy (\$3 for lower cost preferred drugs and \$5 for others);
- \$50 copayment on emergency room visits;
- \$100 per day copayment and \$200 maximum for hospital stays.

Program changes

- Enroll seniors and persons with disabilities in managed care;
- Reduce radiologists rates to 80% of Medicare rates;

- Freeze hospital rates at the current level;
- No longer pay Medicare Part B premiums for beneficiaries with shares of cost less than \$500.

It should be noted the May Revision does not rescind the January Budget proposal to eliminate full-scope Medi-Cal benefits to lawfully residing immigrants who have been in the state less than five years. The May Revision maintains the January Budget proposal to eliminate the Adult Day Health Care Program. The May Revision does restore the optometry benefit for adults as required by federal law.

- The May Revision eliminates the Drug Medi-Cal program (excluding the Perinatal and Minor Consent programs) effective October 1, 2010. The Drug Medi-Cal program provides services to more than 270,000 recipients annually.
- Shifts \$11.3 million in Proposition 99 funds to backfill General Fund in Medi-Cal, from the Asthma Public Health Initiative (APHI) and the Expanded Access to Primary Care program. This proposal would eliminate the APHI.

Healthy Families Program

California receives roughly two federal dollars for each state dollar to provide health care coverage to children in families with incomes up to 250 percent of the federal poverty level (FPL). The HFP currently has more than 900,000 enrollees.

- The May Revision rescinds the January budget proposal to eliminate the Healthy Families Program, which is prevented by federal health care reform signed by President Obama in March. The elimination of vision coverage for children, however, was not withdrawn.
- Increase monthly premiums for families with incomes between 200 and 250 percent of the Federal Poverty Limit (FPL) from \$24 per child to \$42 per child (an increase of 75 percent). The maximum premium charged to a family would rise from \$72 to \$126.
- Increase emergency room copayments from \$15 to \$50 and adding hospital inpatient services copayment of \$100 per day with a \$200 maximum.

Mental Health

- The May Revision proposes to shift \$602 million in Mental Health Realignment funds to administer Food Stamps and Child Welfare Services. The decimation to the publicly-funded mental health service system would result in adults eligible only for inpatient treatment and medications and EPSDT services for seriously emotionally disturbed children.
- The May Revision suspends the AB 3632 mandate. AB 3632 requires counties provide mental health services to special education students who have been determined eligible through an Individualized Education Plan (IEP).

IHSS

The In-Home Supportive Services program provides in-home care for aged, blind, or disabled persons who would not otherwise be able to remain in their own homes. There are approximately 460,000 IHSS recipients and 385,000 providers.

- The May Revision maintains the January Budget proposal to eliminate the Cash Assistance Program for Immigrants (CAPI). Implementation would be delayed to October 1, 2010. This program provides state-only cash assistance to elderly and disabled legal immigrants who are ineligible for SSI/SSP grants solely due to their immigration status.
- The May Revision eliminates the January Budget proposals which would have eliminated IHSS services to anyone with a Functional Index Score below 4.0 and reduce state participation in wages for IHSS workers to the state minimum wage. The May Revision proposes \$750 million in unspecified General Fund reductions to be developed with stakeholder consultation.
- The May Revision maintains the January Budget proposal to reduce the monthly SSI/SSP grant for individual recipients from \$845 to \$830 with an implementation date of October 1, 2010.

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

CalWORKs provides cash grants and welfare-to-work services to families whose income is inadequate to meet their basic needs. There are 1.4 million poor Californians enrolled in CalWORKs, 2/3s of whom are children.

- The May Revision eliminates the CalWORKs program effective October 1, 2010 resulting in savings of \$1.6 billion. CalWORKs provides cash assistance and a range of services including job training, education, child care, and employment programs for more than 1.4 million residents, including 1.1 million children. As a result of this proposal the state would lose approximately \$3.5 billion in federal TANF funding in 2010-11 increasing to \$3.7 billion every year thereafter.

The elimination of CalWORKs will likely mean an increase in unemployment, poverty, and homelessness among recipients and further strain other state and local programs at a time when millions of families struggle every day to get back on their feet.

Additional Human Services Proposals

- The May Revision retains the Governor's January Budget proposal to eliminate the California Food Assistance Program (CFAP) effective October 1, 2010.
- Reduce the maximum monthly grant for individuals receiving monthly Supplemental Security Income/State Supplementary Payment grants from \$845 to \$830. Implementation would be delayed to October 1, 2010.
- The May Revision eliminates all General Fund support for child care assistance resulting in savings of \$1.2 billion in 2010-11. Approximately 142, 000 children would be affected except those in the State Preschool Program or state-funded after-school programs.

- State employees' current three-days-a-month furlough would be replaced by a "personal leave" program which would subtract a day's wages from their monthly paycheck for eight hours of floating time off. This proposal is in addition to the Governor's January plan of a 5 per cent pay cut for state employees and increasing what state workers contribute to their pensions by five percent of their earnings. The furlough program is scheduled to expire on June 30, 2010.
- Proposition 98 funding for K-14 education totals \$49.9 billion in 2009-10 and \$48.4 billion in 2010-11. These figures reflect the elimination of Proposition 98 funding for child care and results in per pupil spending almost \$1,100 below the 2007-08 level.
- The May Revision funds UC, CSU and Community Colleges at the same funding level proposed in the January Budget.

The magnitude of the economic downturn and the drastic funding reductions proposed in the May Revision present lawmakers with many difficult choices and painful decisions. In the balance are families and communities that have been hit by forces beyond their control. Many of the program reductions and eliminations included in the May Revision entail the loss of billions of dollars in matched federal revenues further compounding the pain and suffering to our most vulnerable citizens. Elected officials will need to be especially creative and bold in order to come up with a balanced approach if they are to forestall the worst effects resulting from the adoption of the many draconian proposals in the May Revision.