



“This year, we must begin to heal the patient.”

Governor Arnold Schwarzenegger
State of the State Address January 5, 2005

In his second annual State of the State address on January 5, 2005, Governor Arnold Schwarzenegger spoke about his plans for California. In his speech, he likened the state budget to a sick patient and suggested that this year the bleeding would stop and the patient would heal.

On January 10, 2005, the governor released the state’s proposed budget for Fiscal Year 2005-06. The budget is an annual document that reflects the administration’s priorities and sets the tone for the state’s spending plan. The legislature and public will have an opportunity to respond to the governor’s proposed budget during budget committee hearings.

The state’s economic recovery continues strongly with personal income (in certain income categories) and taxable sales growing more quickly. While the unemployment rate declined in 2004, it was due in part to an exit of persons from the labor force market. California’s housing market continues to boom with median prices of homes increasing by a staggering 20.9 percent, resulting in home ownership being out of reach for many of California’s working families.

Table One: Total Revenues

	Dollars (in millions)	% of budget
Personal Income Tax	43,578	39.9
Sales Tax	31,279	28.6
Corporation Tax	9,015	8.2
Motor Vehicle Fee	5,014	4.6
Highway User Tax	3,441	3.1
Insurance Tax	2,300	2.1
Tobacco Tax	1,035	0.9
Liquor Tax	315	0.3
Other	13,317	12.3

Table Two: Spending by Department

Department	Dollars (in millions)	% of budget
K-12 Ed	36,044	32.3
Health & Human Services	32,381	29
Higher Ed	12,853	11.5
Business, Transportation and Housing	7,329	6.6
Youth and Adult Corrections	7,016	6.3
General Govt.	5,013	4.5
Legislative, Judicial & Executive	4,729	4.2
Resources	3,491	3.1
State and Consumer Services	1,295	1.1
Environmental Protection	1,194	1.1
Labor and Workforce	379	.3

Due to a structural imbalance, the state continues to face a deficit of approximately \$9.1 billion. Total expenditures for FY 2005-06 are \$92.6 billion General Fund and total revenues are \$84.2 billion. Tables One and Two provide additional information. The administration proposes a combination of service reductions, borrowing, and major policy changes to a health care program to close the deficit. While new sources of revenues would address the structural deficit, no new revenues are proposed.

Major themes of the proposed spending plan include:

- ✓ **Postponement of Prop. 98 Agreement** – the administration rescinds an earlier agreement to pay back the \$2 billion in postponed payments that the education community would have otherwise received.
- ✓ **State Employee Contracts** – changes are proposed for state worker benefit pension plans to be replaced with defined contribution plans;
- ✓ **Changes to Health Care System** – major policy initiatives include the Medi-Cal Redesign, health insurance for children, obesity, and a prescription drug program for the uninsured.

Health and Human Services

Health and human services account for 29 percent of the state’s budget and are the cornerstone of the governor’s budget proposal. For FY 2005-06, health and human service expenditures will total \$69.8 billion in combined state and federal funds. In addition to new policy initiatives that will be discussed below, the administration also instructs the Health and Human Services Agency to reduce its budget by an additional \$24.4 million agency-wide. These reductions could be in the form of layoffs, hiring freezes, procurement reductions and/or administrative means. Table Three provides additional detail regarding the health and human services budget.

Table Three: Health and Human Services Agency Proposed
05-06 Funding

Department	Dollars (in millions)	% of budget
Medi-Cal	34,065	48.6
CalWORKS	4,900	7.0
State-Local Realignment	4,362	6.2
Children’s Services	3,744	5.4
Developmental Services	3,689	5.3
SSI/SSP	3,523	5.0
Public Health Services	3,490	5.0
In-Home Supportive Services	3,096	4.4
Mental Health	2,747	3.9
Other**	1,598	2.3
Other Social Services	1,559	2.2
Child Support Services	1,374	2.0
Managed Risk Medical Insurance	1,047	1.5
Alcohol and Drug Programs	513	0.9

In developing reform proposals and reductions in services, the Governor committed to taking a balanced approach in maintaining access to health and human services while also managing and controlling costs. The Latino Coalition for a Healthy California will continue to provide members of the Rapid Response Network with more detailed information on the budget proposals as it becomes available.

The following is a summary of the Governor’s health recommendations for 2005-2006:

Medi-Cal Program Redesign

The FY 2005-2006 budget for Medi-Cal comprises almost half of the total budget for the Health and Human Services Agency. The Governor proposed to “increase efficiency and effectiveness for beneficiaries and providers, improve health care outcomes, and provide for the long-term financial viability of the program.” It is estimated that \$144.9 million will be saved when Medi-Cal redesign is fully implemented and \$171 million will be saved over the first five years.

- ✓ ***Improving Access to Care and Health Outcomes through Managed Care Expansion***
554,000 seniors and disabled individuals will be required to enroll into managed care plans in all counties. In addition, 262,000 children and families will be enrolled in managed care in 13 additional counties beginning January 1, 2007. Medi-Cal will create Acute and Long Term Care Integration plans in three counties to provide integrated Medi-Cal and Medicare services to seniors and persons with disabilities.
- ✓ ***Stabilizing the Financing of California's Safety Net Hospital***
A new five-year hospital financing waiver is being negotiated with the federal government to allow California to continue contracts with selected hospitals serving low-income populations. The waiver will replace current funding methods. It is estimated that 240 hospitals that contract with Medi-Cal and receive disproportionate share hospital (DSH) payments will be affected by this proposal.
- ✓ ***Beneficiary Cost Sharing***
Monthly premiums will be established for 460,000 families and children in households with incomes above 100% of FPL (\$1,306 for a family of three), and 90,000 seniors and persons with disabilities with incomes above the Supplemental Security Income/State Supplemental Payment level (\$812 for an individual and \$1,437 for a couple). Premiums will be \$4 per month for each child under the age of 21 and \$10 per month for adults. The maximum is \$27 per month per family. Individuals participating in current share-of-cost programs under Medi-Cal are exempt.
- ✓ ***Streamlining Enrollment for Children***
Medi-Cal eligibility determination for children whose Medi-Cal application is submitted to the State's Healthy Families centralized Single Point of Entry will be processed by the vendor instead of being forwarded to the child's county of residence.
- ✓ ***County Performance Standards Monitoring***
A vendor will be employed to monitor county compliance with federal and state standards for eligibility determinations and improvements to be made in the provider enrollment process.
- ✓ ***Modify the Medi-Cal Benefit Package***
The Medi-Cal dental benefit package provided to adults will be aligned with the benefits commonly provided in employer-based and the public sector health coverage programs by placing a limit on adult dental services. The limit will be \$1,000 in a 12-month period. This limitation excludes the costs of federally mandated dental services, hospital costs related to dental treatment, and emergency services.

Expanding Health Insurance Coverage for Children

It is estimated that approximately 430,000 uninsured children remain eligible for Healthy Families or Medi-Cal. The Governor proposes the following initiatives to ensure that every child in California has health care.

✓ ***Improve Outreach and Enrollment by restoring Healthy Families/Medi-Cal Application Assistance***

The application assistance fees for Healthy Families and Medi-Cal applications will be re-established. The total cost will be \$14.5 million (\$5.9 million in General Funds). It is estimated that approximately 15,000 children will be enrolled in Healthy Families for 2005-2006 and 30,000 additional children in future years.

✓ ***Improve Retention of Children Transitioning from Medi-Cal to Healthy Families Program Through Performance Standards***

The Medi-Cal/Healthy Families Bridge Performance Standards will be established for children no longer eligible for Medi-Cal due to family's increase in income but who are given one month of additional Medi-Cal coverage to allow time for the family to complete the Healthy Families application. Counties are required to forward applications to Healthy Families during this extra month. It is estimated that 10,000 additional children will be served in 2005-2006 and an additional 27,000 children in future years. It is estimated to cost \$2.1 million in General Funds.

✓ ***Assistance to County Initiatives – Healthy Families Program Buy-In***

Technical assistance will be provided by MRMIB to counties that are attempting to create "Healthy Kids" programs for children not eligible for Medi-Cal or Healthy Families. In addition, the persons working in these positions will work with interested counties to develop a Healthy Families buy-in option in which counties can transfer local funds to Healthy Families and have their Healthy Kids-eligible children participate directly in Healthy Families.

✓ ***Facilitate Enrollment by Revising the Joint Healthy Families Program/Medi-Cal Application***

The joint Medi-Cal and Healthy Families application will be updated to improve the application layout and design, include an authorization form to release information to certified application assistants, and make it user friendly.

California Obesity Initiative

The Governor is proposing \$6 million in General Funds an obesity prevention program to "allow the Department of Health Services to provide leadership in preventing obesity by promoting healthy eating, regular physical activity, and responsible choices by individuals." The framework the administration used was the following:

- ✓ Support healthy school environments by improving the nutritional quality of food and beverages available and increasing opportunities for physical activity;

- ✓ Increase access to obesity prevention and intervention services in public and private health insurance programs;
- ✓ Support the planning and design of healthy communities by supporting local efforts to make California more conducive to walking and increased physical activity;
- ✓ Prevent obesity through workplace changes that support increased physical activity and healthy eating; and
- ✓ Recognize obesity prevention as a statewide health priority through public education and outreach, including a Governor's Summit on healthy eating and physical activity.

California Rx (Cal Rx) – Prescription Drugs for the Uninsured

The Governor proposes \$4 million in General Funds to implement the California Rx (Cal Rx) Program. Cal Rx will use a single point-of-entry approach for uninsured families and individuals under 300% of FPL (\$27,936 for an individual and \$56,568 for a family of four) to have access to a Web-based clearinghouse for free and reduced-price drug assistance programs currently offered by the pharmaceutical manufacturers. It is estimated that four million Californians will be eligible for this program. Legislation will be introduced to create and implement this program.

Other Health and Human Services Savings Proposals:

- ✓ *Maximize Federal Funds for Prenatal Care* - \$191 million General Fund savings reflecting accessing federal funding for prenatal care provided in Medi-Cal.
- ✓ *Medi-Cal Redesign* - \$12.3 million in General Funds savings attributed to redesigning Medi-Cal.
- ✓ *Office of Binational Border Health* – Eliminates \$694,000 in General Fund savings for the support of the Office of Binational Border Health. The Office of Binational Border Health coordinates local border health agencies and communicates between California and Mexican officials regarding disease prevention. There will still remain \$500,000 in federal funds to support the office's mission.
- ✓ *Healthy Families Program* - \$2.5 million increase for 27.5 positions to process application appeals, reestablish the application assistance payment process, and monitor the administration vendor contract as a means to facilitate enrollment and retention of children.
- ✓ **Major Changes to the CalWORKs program**, a program that assists low income working poor families. The proposals are harsh and make it more difficult for families to attain self-sufficiency. Program changes include eliminating the CalWORKs Cost-of-Living Adjustment, increasing work requirements, reducing the Earned Income Disregard, reducing the size of the grant by 6.5 percent and reducing the state's one-time augmentation to employment services;
- ✓ **Changes to the In-Home Supportive Services (IHSS) Program** include reducing the maximum level of IHSS provider wages and benefits; and

- ✓ **Suspending the Cost of Living Adjustment** to those on **SSI/SSP** (Supplemental Security Income/State Supplementary Payment).

Conclusion

The state of California's economic growth is dependent on the health and well-being of California's eleven million Latinos, who comprise one-third of the state's population. Achieving health for all Californians is a matter of good economics. The cost of poor health is far greater than the cost of preventing it. The Latino Coalition for a Healthy California is committed to advocating and promoting equal access to health care for all California residents, and to ensuring that vital health services remain available to the most vulnerable of families in the future. The health of the state depends on the health of all its residents.

An analysis on how these proposals impact the Latino community will be forthcoming. Meanwhile, if you have any questions or would like to become a member please contact:

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