



Governor Releases May Revision That Proposes Significant Cuts to Health and Human Service Programs

Governor Arnold Schwarzenegger originally announced he was going to hold off on releasing his May Revision until the end of May so that the Administration could adjust the budget numbers to reflect the outcome of the May 19th special election. But the Governor chose to release the May Revision on May 14 to provide the Legislature and voters with two scenarios.

The first scenario depicts a \$15.4 billion budget gap for the 2009-2010 budget. This scenario assumes that voters approve the fiscal measures that affect this year's budget, Propositions 1C, 1D, and 1E on the May 19 ballot. These measures would raise an estimated \$5.8 billion toward closing the budget gap by borrowing against the lottery and transferring money from Prop. 10 health programs and funds generated from Prop. 63 mental health programs.

Under the first scenario, total General Fund expenditures would be reduced from \$92.5 billion in 2008-09 to \$84 billion in the 2009-10 budget year. Total revenues would be projected to decline from \$88.2 billion in 2008-09 to \$86.3 billion in the 2009-10 budget year.

The second scenario, which assumes a rejection of those measures mentioned above, projects a \$21.3 billion budget gap for 2009-10. The Governor's projections depict a \$15.4 billion deficit if the ballot measures are enacted and \$21.3 billion deficit if the ballot measures fail. Out year deficits would also increase by \$16.2 billion if Prop. 1A fails.

Under the second scenario, total expenditures would fall from \$91.6 billion in 2008-09 to \$85.5 billion in 2009-10. Total revenues available under the second scenario would be increased due to more proposed borrowing, increasing from \$88.3 billion in 2008-09 to \$88.6 billion in 2009-10.

In February, the Governor signed a budget for 2009-10 five months before the June 15 constitutional deadline. The budget included a series of spending cuts and revenue increases to close a \$41.6 billion budget deficit.

Unfortunately, a deteriorating economy has led to \$13.5 billion in lower than projected state tax revenues and \$2.3 billion in higher than expected expenditures.

The output of both the national and state economy is expected to begin to grow in the second half of 2009, but the recovery will likely be slow at first.

Both of the Governor's budget scenarios include a series of significant cuts to health and human services programs.

The Big Picture

The Governor proposes to close the \$15.4 billion gap by:

- \$6 billion in external borrowing
- \$5.6 billion in program reduction
- \$1.1 billion privatization of a portion of the State Compensation Insurance Fund
- \$989 million in revenue accelerations and fees
- \$889 million by reducing the size of the budget reserve
- \$750 million in unidentified cuts to the Medi-Cal Program (need a federal waiver)
- \$105 million in fund shifts
- \$50 million by consolidating state programs

If the three ballot measures fail, the Governor proposes:

- \$3.4 billion in additional program cuts
- \$2 billion in borrowing from local government property tax revenues
- \$1.8 billion in additional revenue accelerations and/or fees

Summary of Health and Human Service Cuts If Propositions Pass

The Governor proposes to make deep cuts to health and human service programs that are summarized below by program. Many of these cuts hit the state's most vulnerable, particularly the poor and minorities.

--\$750 million in unspecified reductions to the Medi-Cal program that would include a reduction in eligibility, provider payments, and benefits. The May Revision states the Administration's intent to apply for a federal waiver to allow these cuts due to the restrictions included in the federal economic recovery bill and other federal statutes that prevent such reductions. The May Revision says that the "state cannot afford its Medi-Cal program as currently structured" and the Administration continues to believe that eligibility roll-backs are necessary.

--\$120.2 million reduction by eliminating the Cash Assistance Program for Immigrants (CAPI) and the California Food Assistance Program (CFAP). The CAPI provides cash assistance to approximately 12,000 aged, blind, and disabled legal

immigrants, who would be eligible for the federal SSI/SSP program but are not eligible because of their immigration status. The CFAP provides benefits to more than 22,000 low-income legal non-citizens between the ages of 18 and 65, who meet all the eligibility requirements for the federal Food Stamp program but have resided in the United States for less than five years. These state programs would be eliminated October 1, 2009 under the Governor's proposal.

--\$125 million reduction by reducing services for newly qualified legal immigrants and for those permanently residing under color of law. Beginning on October 1, 2009 this proposal would limit benefits for newly qualified immigrants (over the age of 20 and excluding pregnant women) and immigrants permanently residing under the color of law to emergency services only.

--\$132.2 million reduction in benefits to California Public Employees' Retirement System (CalPERS) recipients. The Administration proposes to decrease CalPERS health care costs beginning in January 2010 by contracting for lower cost health care coverage either through CalPERS or directly from an insurer. The savings would begin in 2010-11 and prefund Other Post-Employment Benefit (OPEB) costs.

--Require 25-year Health Benefits Vesting for New Employees. This proposal would reduce OPEB costs and unfunded actuarial accrued liability (UAAL) by 38 percent over 30 years, by requiring that new employees work for 25 years or more before becoming eligible for free lifetime health benefits.

--\$40.8 million reduction by limiting In-Home Support Services (IHSS) domestic and related services to the most functionally impaired. This proposal, which would become effective October 1, 2009 would limit the provision of domestic and related services to individuals with the highest level of need.

--\$38.2 million reduction by limiting the IHSS share-of-cost buyout to the most functionally impaired. This proposal would target the state buyout program to the most functionally impaired. This program currently reduces costs for IHSS recipients whose Medi-Cal share of cost is higher than their IHSS share of cost.

--\$114.1 million reduction by limiting state participation in IHSS wages. This proposal, which would become effective October 1, 2009 and would reduce state participation in the wages of IHSS workers to the state minimum wage of \$8.00 per hour, plus an additional \$0.60 per hour for health benefits.

--\$15.8 million in savings by implementing an IHSS anti-fraud initiative. This proposal seeks to significantly increase the prevention and detection of fraud within the IHSS program. There were no other details provided.

--\$248.5 million reduction by reducing Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants to the aged/disabled. This proposal would reduce the maximum monthly grants to the minimum federally allowed levels for

individuals and couples. It would become effective September 1, 2009 and reduce the maximum SSI/SSP grant for an aged/disabled individual to \$830 per month and the maximum grant for aged/disabled couples to \$1,407 per month.

--\$156.7 million reduction to the CalWORKs program for needy families. This proposal, which would become effective October 1, 2009, would: 1) modify the state's Safety Net program by continuing benefits for families beyond their 60-month time limit only if they meet federal work participation requirements, 2) provide cash aid for families receiving child-only benefits in a manner consistent with other CalWORKs families, 3) institute a face-to-face self-sufficiency review every six months with a county worker for CalWORKs families who are not meeting work requirements, and 4) reduce the CalWORKs maximum aid payment standard by six percent.

--\$75 million in savings by implementing Medi-Cal pharmacy reforms. This proposal would implement new federal and state drug policies aimed at lowering costs and retaining quality care. This proposal would require federal Drug Pricing providers to dispense only drugs purchased through the program, would require manufacturers of HIV/AIDS/Cancer drugs to pay particular rebates subject to a penalty of non-compliance, establish upper billing limits for drugs, and would require the state to perform therapeutic category review of antipsychotic drugs.

--\$47.9 million in savings by implementing a Medi-Cal anti-fraud initiative. This proposal would more aggressively target fraud in adult day health care centers, pharmacy, physicians, durable medical equipment, and transportation. These efforts would require 62 new positions and \$3.4 million General Funding spending in 2009-10. The savings are projected to significantly increase after startup in 2009-10 and rise from \$47.9 million to approximately \$87.0 million in the out years.

--\$20 million reduction to Medi-Cal by reducing payments to private hospitals by 10%. This proposal would achieve necessary savings by reducing General Fund support for private hospitals by 10%.

--\$36.8 million reduction to Medi-Cal by rolling back the increase for Family Planning Services. This proposal would reduce the rates for family planning services to the pre-January 2008 level. Chapter 636, Statutes of 2007, increased the reimbursement rates for services by approximately 91%.

--\$2.7 million reduction in state certified application assistance for children's health insurance coverage. This proposal would eliminate certified application assistance which provides up to \$60 to contractors for helping individuals enroll and remain in the subsidized children's health insurance coverage.

--\$2.8 million from increased fees collected from the residents of Veterans Homes. Currently, residents pay fees on a percentage of income, up to a dollar cap, based on the level of care. The Governor's proposal would increase fees by removing the dollar cap,

increasing the percentage for the Residential Care for the Elderly, and revise the fee structure for non-veteran spouses to more accurately reflect their share of cost.

If the May 19 ballot measures fail, the Governor's May Revise proposes \$3.4 billion in additional program cuts. The proposed health and human service cuts are summarized below:

--\$301.5 million in reductions to IHSS by targeting services to the most vulnerable beneficiaries. Beginning on October 1, 2009 this proposal would disallow services to individuals who require only minimal physical assistance from another person to perform an activity and individuals who only need supervision from another person to perform an activity.

--\$54.5 million reduction to Healthy Families program by rolling back eligibility to 200% of the federal poverty level (FPL). Rolling back eligibility to 200% of the FPL (or the 1999-2000 level) would mean that approximately 225,000 children would no longer receive health coverage through the program.

--\$25.5 million reduction to Medi-Cal by reducing the Adult Day Health Care program optional benefit by limiting benefits to three days per week.

--\$2.9 million reduction by eliminating General Fund support for Children's Dental Disease Prevention. This program offers \$2.9 million in General Fund support for a comprehensive school-based prevention program based on need. The program operates in 31 counties serving approximately 300,000 preschool and elementary school children annually. Need is based on the proportion of Free and Reduced School Lunch Program participation for each county.

--\$5.9 million by eliminating state funding for the California Poison Control System. This funding supports a statewide network of trained experts that provides free immediate treatment advice and assistance to California citizens over the telephone in cases involving exposure to poisonous or hazardous substances.

--\$108 million reduction by eliminating funding for Prop. 36 substance abuse treatment and crime prevention programs. As enacted, the Substance Abuse and Crime Prevention Act (SACPA) (Prop. 36) guaranteed state funding for the first five years of the program, 2001 through 2006. The Administration's proposal eliminates a total of \$108 million in General Fund funding by cutting the SACPA by \$90 million and the Substance Abuse Offender Treatment Program by \$18 million.

--\$8.8 million reduction by enacting a 10 percent rate reduction for all drug Medi-Cal Treatment Modalities. This program funds substance abuse treatment services for Medi-Cal eligible individuals.

--\$24.6 million reduction by eliminating General Fund support to HIV education and prevention program. This state program provides \$24.6 million in General Fund funding to local health jurisdictions to prevent HIV transmission, change attitudes and behavior related to HIV, and promote risk-reduction skills.

--\$10 million reduction by eliminating General Fund support for maternal, child and adolescent health grants to local jurisdictions. This program provides \$10 million in General Fund funding to local health jurisdictions for services and programs to improve the health of mothers, infants, children, adolescents, and families.

--\$20.4 million reduction by eliminating General Fund support for local domestic violence support. This program provides \$20.4 million in General Fund funding for 94 domestic violence shelter/centers by providing emergency and other services to domestic violence victims and their children. Services include emergency shelter, transitional housing, legal advocacy, assisting with temporary restraining orders, counseling, and other support services.

--\$13.9 million reduction by reducing certain Child Welfare Service rates by 10%. Rates would be reduced for Group Homes, Foster Family Agency, and Specialized Care and Clothing allowances.

--\$70 million reduction or 10% reduction to program funding for Child Welfare Services. This would reduce General Fund allocations to counties for Child Welfare Services by 10%.

--\$18.3 million in new fees charged to Medi-Cal skilled nursing facilities. This proposal would expand the amount of revenue on which the AB 1629 fee is assessed to include Medicare revenues. Under current law, skilled nursing facilities pay a fee to the state based on their revenues. The state uses the fee to draw down an equal amount of federal funds, of which a portion is provided to nursing homes through Medi-Cal rate payments. The balance remains with the state.

--\$60 million shift in Prop. 99 tobacco surtax funds to Medi-Cal. The Governor proposes to redirect \$60 million in Proposition 99 funds from county health clinics to Breast Cancer Early Detection, Asthma, Major Risk Medical Insurance, Access for Infants and Mothers programs, a rural health demonstration project and a consumer assessment project to offset costs in the Medi-Cal program.

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