



“Government can work. It can be efficient....Government can lead.” – Governor Arnold Schwarzenegger,
State of the State speech on January 8, 2008

Governor’s Proposed Budget – Starting the year \$14.5 billion in debt Fiscal Year 2008-2009

If California’s deficit sounds like a familiar theme, it is because our state has had more than its fair share of budget deficits in the last decade. For Governor Schwarzenegger, however, the upcoming fiscal year represents the most fiscally difficult year this administration has faced. Today’s earlier release of the state budget confirms what had been apparent in the fall of 2007 when the administration first directed all state agencies and department to prepare across-the-board reduction in spending by 10%. Minus a handful of programs that are deemed ‘exempt’ or would be impractical to cut, today’s January Budget Proposal includes such a reduction. Additionally, the Governor included two other primary elements to combat the \$14.5 billion dollar deficit that the state is anticipated to face in the upcoming fiscal year. Once again, the Governor has called for budget reform and has proposed the ‘Budget Stabilization Act’ which would amend the state’s constitution. As part of this proposal, the Governor would create a Revenue Stabilization Fund (RSF) which would function as a savings account for the state in time of excess revenue. This savings account and the funds it contains could then be utilized in budget years where there are not sufficient revenues. Secondly, the Governor has called for a ‘Special Legislative Session’ that will review immediate budget and cash shortfalls that potentially affects funding in the current fiscal year (2007-2008), which does not end until the end of June. Note: Please visit Page 6 for more information on those items proposed for review.

What does a 10% reduction overall mean?

The 10% across-the-board reduction refers to a reduction in General Fund spending on departments and programs (as well as a miscellaneous assortment of other public entities covered by the state). Typically, General Fund dollars refers strictly to those funds that are state dollars and do not include federal dollars that are received in ‘dollar match’ programs, many of which are often included in California’s health and human services programs. Often referred to as the FFP, or the Federal Financial Participation rate, these federal funds often provide a dollar match for every state dollar provided. For programs such as Medi-Cal and the Healthy Families Program, the FFP is often used to leverage state funding. As a result, a 10% reduction in General Fund dollars in these programs actually doubles the reduction amount since it represents additional federal dollars that will not be received. The reductions included in the Governor’s proposed budget are summarized in the following pages. In the coming weeks, LCHC will be releasing an in-depth analysis of the January Budget and its impact on Latino health.

Summary of Governor’s Proposed Budget

Listed in order of budget reduction amount:

Agency	2007-2008	2008-2009	Change
K-12 Education	\$42 b	\$39.4 b	-\$2.6 b
Health and Human Services	\$29.6 b	\$29.3 b	-\$279 m
Resources	\$1.8 b	\$1.6 b	-\$148 m
Legislative, Judicial & Executive	\$3.9 b	\$3.7 b	-\$127 m
Higher Education	\$11.8 b	\$11.7 b	-\$104 m
Labor & Workforce Development	\$ 104 m	\$98 m	-\$6 m
Environmental Protection	\$91 m	\$86 m	-\$5 m
State & Consumer Services	\$597 m	\$608 m	\$ 11 m
Business, Transportation & Housing	\$1.5 b	\$1.6 b	\$154 m
Corrections & Rehabilitation	\$10 b	\$10.2 b	\$172 m
General Government	\$1.8 b	\$2.4 b	\$591 m

Immediate Reductions in Health Spending for Cash Reserve

- ◆ \$454 million – delay in Medi-Cal fee-for-service institutional providers in August 2008 until September 2008
- ◆ \$232 million – delay in Medi-Cal Managed Care plans and Delta Dental payment for one-month
- ◆ \$165 million – delay in Medi-Cal fee-for-service disbursement from June 2008 to July 2008
- ◆ \$164 million – delay in making payments to counties in Medi-Cal for administration, one to two months
- ◆ \$814 million – delay in disbursements for programs in the Dept. of Social Services

Source: California Department of Finance, Governor’s Budget Summary 2008-2009, www.dof.ca.gov

What is the Budget Process?

By state statute, the Governor of California is required to release a January Budget proposal which represents the state's best first estimate of the state's finances for the next fiscal year which begins six months after the January version, on July 1. Converted to a legislative bill, the January Budget Proposal will be reviewed by the state Legislature over the next several months through public hearings in which interested stakeholders can provide input regarding spending or reduction in the budget items. The Governor must also release an updated budget, usually released in May (and referred to as the 'May Revise'), after the state has received the bulk of its revenues through the annual April 15th tax deadline.

The State's Total Budget

For the first time in several years, the state's total budget is being decreased which runs counter to prior budget year trends, given that caseload increases typically mirror the state's general population increases (expected to increase to 25 million by 2050, according to the latest California Department of Finance projection).

TOTAL BUDGET EXPENDITURES*	\$ 141 billion
Total General Fund Expenditures*	\$ 101 billion

*Includes Budget Balancing Reductions

Total Health and Human Services (HHS) Spending

Not surprisingly, spending in health and other human services (HHS) continues to represent the state's second largest spending category and continues to follow the state's spending in our K-12 educational system. Currently, HHS spending represents a quarter (25.3%) of the state's overall budget or approximately one-third (29%) of the state's General Fund spending. Much of the HHS budget can be traced to two primary public health programs - Medi-Cal and the Healthy Families Program.

TOTAL HEALTH & HUMAN SERVICES EXPENDITURE*	\$ 35.6 billion
Total General Fund Expenditures*	\$ 29.3 billion

*Includes Budget Balancing Reductions

Total Spending by Department

◆ Department of Health Care Services (DHCS)

The Department of Health Care Services is generally one of the largest expenditures within the Health & Human Services' overall budget, primarily because it oversees the Medi-Cal program.

TOTAL DHCS EXPENDITURES	\$ 39.3 billion
Total Medi-Cal Expenditures (all funds)	\$ 36 billion

◆ Managed Risk Medical Board (MRMIB)

Similar to the Department of Health Care Services, the Managed Risk Medical Board's budget is largely dominated by one program- the Healthy Families Program.

TOTAL MRMIB EXPENDITURES	\$ 1.3 billion
Total Healthy Families Program Expenditures (all funds)	\$ 1.1 billion

◆ Department of Public Health (DPH)

Now into its second fiscal year, the Department of Public Health continues to focus on preventative services and will be responsible for handling the state's public health disaster and emergency preparedness programs.

TOTAL DPH EXPENDITURES	\$ 3.1 billion
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◆ Department of Social Services (DSS)

The Department of Social Services primarily services a variety of programs that offer aid and assistance to children and families, such as CalWORKS (California's version of the Temporary Assistance for Needy Families often referred to as TANF) and Supplemental Security Income/State Supplementary Payments (SSI/SSP).

TOTAL DSS EXPENDITURES	\$ 19 billion
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Health Care Spending by Program

Medi-Cal

The Governor's budget includes \$36 billion for Medi-Cal spending. Medi-Cal is California's Medicaid program and is a health entitlement program for low-income, medically needy, or disabled Californians who meet certain eligibility criteria. The program is funded through a combination of federal and state tax dollars, generally referred to as the Federal Financial Participation rate representing the dollar match that the federal government provides. Federal law requires that Medi-Cal provide basic services, such as doctor's visits, hospitalization, lab tests, x-rays, and mental health screening for children up to age 21. Approximately 17% of all Californians, or over 6 million people, are beneficiaries. Of this, nearly 46% of all Medi-Cal enrollees are Latino. Medi-Cal serves an incredibly important function to California's Latino community, who are 15% less likely than other ethnicities to receive health insurance from their employers.

The Medi-Cal program has been the largest expenditure in the Department of Health Care Services, considering that it provides medical services for California's most medically-vulnerable residents. In Fiscal Year 2007-2008, Medi-Cal accounted for \$37 billion, \$14.1 from the General Fund. Fiscal Year 2008-2009 includes significant reductions, and spending will be reduced by nearly \$1 billion for a total of \$36 billion (\$13.6 billion General Fund). Although there are some enhancements in health technology and program enrollment and certification, measures taken in this budget reduce the number of Medi-Cal beneficiaries by over 1% despite the fact that the state's population is expected to grow by 1.2% in the next year.

Medi-Cal Expenditures and Enhancements

- ◆ **Provider Enrollment Automation Project - \$2.4 million (\$0.6 million General Fund)**
California will purchase and establish a provider enrollment case and document tracking system to simplify the enrollment process for medical providers wishing to accept Medi-Cal clients and shorten the amount of time it currently takes to enroll providers into the network.
- ◆ **Delay of Pharmaceutical Spending Formula Change - (\$1.442 billion General Fund)**
In 2007, Governor Schwarzenegger proposed changing Medi-Cal's formula for drug purchase costs from the Average Wholesale Price (AWP) to the Average Manufacturer Price (AMP). This would have saved the state millions of dollars on our bulk drug purchases for Medi-Cal beneficiaries. However, a United States District Court issued a preliminary injunction barring the Center for Medicaid Services from releasing AMP data, preventing California from being able to calculate the actual costs of our drug purchases.

Reductions

- ◆ **Provider Payment Reductions - \$1.4 billion (\$704.3 million General Fund)**
The Fiscal Year 2008-2009 budget proposes across-the-board 10% reductions in payments to Medi-Cal providers. Almost all fee-for-service and managed care providers will be affected by these cuts. This may drastically reduce the already-low number of Medi-Cal providers, making it even more difficult for beneficiaries to find medical care, particularly specialty providers.
- ◆ **Optional Medi-Cal Benefits for Adults - \$268.2 million (\$134 million General Fund)**
Medical services deemed "optional" will be eliminated from the Medi-Cal program for adults. Such services include adult dental, audiology, optometry, optical, podiatry and psychology. The elimination of adult dental services account for \$115 million of the total \$134 million in General Fund savings.
- ◆ **Quarterly Eligibility Redetermination - \$184.4 million (\$92.2 million General Fund)**
Under current regulations, adults enrolled in the Medi-Cal program must provide a redetermination of their income and assets every 6 months; children must do the same every 12 months. The proposed budget changes these redeterminations to every 3 months for both children and adults, effectively reinstating the quarterly status reports that were eliminated several years ago. Quarterly status reports may result in disenrollment from Medi-Cal and loss of health insurance benefits. This proposal does not change the income or asset limits for Medi-Cal, although it is projected that many beneficiaries will lose their benefits due to fluctuations in income, or difficulty in completing continuous paperwork. Families who lose benefits would be referred to either share-of-cost Medi-Cal and children who appear eligible would be bridged to the Healthy Families Program.

Healthy Families Program (HFP)

Healthy Families Program (HFP) provides low cost insurance offered to children of low-income families who do not qualify for no-cost Medi-Cal. Benefits include medical, dental, and vision coverage for children up to the age of 19. While the Governor's budget includes a decline in revenues allotted to HFP, it also anticipates a growth in program enrollment from 888,450 to 954,252, by the end of Fiscal Year 2008-2009. This represents an increase in enrollment of 7.4%.

♦ Reduction of \$5.8 million General Fund

Funding to HFP remains constant at \$1.1 billion (\$393.6 million General Fund) in Fiscal Year 2007-2008 to \$1.1 billion (\$387.8 million General Fund) in Fiscal Year 2008-2009. However, this represents an actual decline in services per child due to an increase in caseload growth from 888,450 to 934,252. The decline of \$5.8 million in the General Fund represents a decrease of 1.5%. Budget reductions will result in rate reduction for plans, an annual cap on dental benefits, and increases in premiums and co-pays.

♦ Cap on Dental Benefits

HFP will institute an annual cap on dental benefits for beneficiaries. Currently, beneficiaries do not have an annual limit and are offered a broad array of services.

♦ Implementation of SB 437 (Escutia)

SB 437, passed in 2006, accelerates enrollment into public health programs and allow families to self-certify their income during their annual review. Included in the governor's budget for HFP are \$5.9 million dollars to implement SB 437. This funding will allow for 2.8 positions, specifically for these purposes.

State Children's Health Insurance Program (SCHIP)

HFP is jointly funded through federal and state funds, by a federal matching program, nationally known as the State Children's Health Insurance Program (SCHIP). September 2007 marked the end of a 10-year funding cycle for SCHIP. As such, SCHIP needed reauthorization for new funds. After much difficulty, the legislation for such funding expansion did pass through Congress; however, President Bush vetoed the measure. At the end of 2007, President Bush signed an extension of the program to cover current enrollment levels through March 2009. LCHC will keep you apprised of SCHIP as the issue evolves.

Other Health Care Programs

♦ Access for Infants and Mothers (AIM)

Designed to provide low cost health insurance coverage to uninsured pregnant women with family incomes between 200 and 300% FPL (Federal Poverty Level), AIM coverage extends from pregnancy to 60 days postpartum. Children born to AIM mothers are enrolled in the HFP if they have no other insurance coverage. Expenditures for this program are projected to increase from \$134.6 million in Fiscal Year 2007-2008 to \$153.7 million in Fiscal Year 2008-2009, for a total increase of \$19.2 million, or 14%. This change in total expenditures primarily is due to increased enrollment of women from 13,859 in 2007-2008 to 15,836 in 2008-09, or an increase of 1,977 women, or 14.3%.

♦ Major Risk Medical Insurance Program (MRMIP)

MRMIP provides health care coverage for particularly high-risk individuals and those experiencing difficulty in securing coverage through the traditional health insurance market. The Governor's Budget includes \$36 million for MRMIP, which reflects a \$4 million reduction from the \$40 million historical level, due to a continuing decline in Proposition 99 revenues. Program enrollment is "capped" at the level of annual funding provided. The program currently provides benefits to a total of 8,043 people, with 65 people on the waiting list as of December 1, 2007.

Over the last year, MRMIP was intentionally decreasing enrollment through Chapter 794, Statutes of 2002, which required disenrollment for MRMIP participants who had been in the program for 36 months. This statute sunset on December 31, 2007. Therefore, MRMIB is no longer disenrolling members from MRMIP.

Department of Public Health

Newly created in July 1, 2007 through passage of SB 162 (Ortiz) in 2006, the California Department of Public Health has assumed some of the health programs previously operated and overseen by the Department of Health Services (now the Department of Health Care Services). DPH's function will focus on preventive services and will be responsible for handling the state's public health disaster and emergency preparedness programs. The programs are listed as follows:

◆ AIDS

\$11 million reduction in Fiscal Year 2008-09 for AIDS programs through reduced state support and local assistance for various programs, including AIDS Education and Prevention, AIDS Epidemiology Studies and Surveillance, AIDS Drug Assistance, and HIV Counseling and Testing.

◆ Family Health Programs

Family health programs which include services for at-risk teens, domestic violence prevention activities, and education activities including breastfeeding, nutrition, and Sudden Infant Death Syndrome (SIDS) risk will see a \$5.4 million reduction through lower case management.

◆ Disease Prevention Program

State support and local assistance funding for local chronic disease programs including cancer and injury prevention surveillance activities, developing public health interventions, and monitoring environmental contaminants will be reduced by \$3.3 million.

Social Services Spending by Program

CalWORKs

CalWORKs is the state's cash-aid program, recognized as TANF (Temporary Aid for Needy Families) nationwide and provides assistance to children and families. It is considered a children's program since children comprise 80% of the CalWORKs caseload. The Governor's Budget includes \$131 million to provide a statutory Cost of Living Adjustment (COLA) for CalWORKs assistance payments to become effective July 1, 2008, which will increase monthly grant levels for a family of three from \$723 to \$754.

However, the Governor's Budget proposes to implement significant changes that will negatively impact children. The proposal will result in a reduction of \$73.7 million General Fund in Fiscal Year 2007-2008 and a reduction of \$476 million (\$389.1 million General Fund) in Fiscal Year 2008-09. The proposed changes to CalWORKs are estimated to reduce Fiscal Year 2008-2009 caseload projection from 451,600 to 377,000 families, a 16.5% decrease from the Fiscal Year 2007-2008 projection. Key components include:

- Imposing graduated full family sanction. Grants will be reduced by 50% for a full family when an adult has been sanctioned for an accumulated total of six months. Adults who have been sanctioned for an accumulated year will receive no grants for children or themselves resulting in a full family sanction;
- Providing a Work Incentive Nutritional Supplement of \$40 per month to families who are not currently receiving CalWORKs benefits but are meeting federal work requirements;
- Providing cash aid for families receiving child-only benefits that are consistent with other CalWORKs families. Under this proposal, aid to families receiving child-only benefits will be limited to 60 months. These families include parents or caretakers who are undocumented non-citizens, drug felons, or fleeing felons;
- Modifying safety net benefits for families by continuing safety net benefits for families beyond their 60-month time limit if they meet federal work participation requirements.

Supplemental Security Income/State Supplementary Payment (SSI/SSP)

SSI is the federal program providing monthly aid to eligible seniors and persons with disabilities who meet the eligibility requirements. SSP is the state's supplement to the SSI cash grant. The Governor's Budget proposes \$3.7 billion in General Fund spending for the SSI/SSP program in Fiscal Year 2008-2009. This represents a 2.9% increase from the revised Fiscal Year 2007-2008 budget due to a 2.1% increase in enrollment over the Fiscal Year 2007-2008 projected level. However, the Governor's Budget proposes a reduction of \$23.3 million in Fiscal Year 2007-2008 and \$300.3 million in Fiscal Year 2008-2009 in the SSI/SSP program from suspending the June 2008 and June 2009 state Cost-of-Living Adjustments (COLAs). The proposed budget will maintain federal COLAs.

In-Home Supportive Services (IHSS)

IHSS program provides services to enable eligible persons to remain safely in their own homes as an alternative to out-of-home care. Eligible persons are aged, blind, or disabled persons who receive public assistance or have low incomes. By reducing hours authorized for non-medical domestic and related services (meal preparation, meal clean-up, laundry, food shopping, and errands) to IHSS recipients, the Governor's budget proposes savings of \$109.4 million along with a \$10.2 million reduction in county administrative funding and county workload, respectively. Specifically, this proposal would change the timeframe for re-assessing the condition of IHSS recipients from every 12 months to every 18 months.

Child Welfare Services

The Governor's Budget includes \$4 billion (\$1.6 billion General Fund) to provide assistance payments and services to children and families under Child Welfare Services. This is a \$151.3 million (\$95.9 million General Fund), or 3.6%, decrease from the revised Fiscal Year 2007-2008 budget. The Governor's Budget reduces the allocation to counties for Child Welfare Services by \$83.7 million in Fiscal Year 2008-2009. Counties will be able to choose how to apportion the reduced allocation to ensure the health and safety of vulnerable children and their families and to minimize the risk of failing to meet federal outcome requirements. \$6.8 million in Fiscal Year 2007-2008 and \$81.5 million in Fiscal Year 2008-2009 will come from reducing rates for basic care, specialized care, and clothing allowance for the Foster Care, Kin-GAP, and Adoption Assistance programs. This proposal also includes a reduction to maintenance payments for Foster Care, Group Homes, Foster Family Agencies, and Seriously Emotionally Disturbed placements.

Spending Items to be reviewed during Special Budget Session

As mentioned previously in this report, several items may require immediate review by the Legislature. As a result, some issues have been selected by the Governor's January Budget Proposal for review during the Special Legislative Session. It is anticipated that these items will be reviewed in the coming weeks and would potentially affect funding in the current fiscal year of Fiscal Year 2007-2008 that is due to end on June 30, 2008. These actions could improve the state's current cash flow and have been included on page 1 of this document under the 'Immediate Reductions in Health Spending for Cash Reserve'. If acted on during the special session, these items could receive a separate review and hearing process beyond that conducted in the Legislature's typical budget process. Please note that the list below reflects only health and human services items and not all items included in the Governor's Budget Proposal.

- ◆ **County Funding for Department of Social Services program**

The budget proposal includes a potential delay of \$814.2 million in July and August payments and advances to counties for Department of Social Services programs until September 2008, not including the SSI/SSP programs.

- ◆ **Fee-for-Service Institutional Providers under Medi-Cal**

The budget proposal includes a potential delay of \$454 million for institutional Medi-Cal providers in Fiscal Year 2008-2009 through temporary delays in August 2008 payments until September 2008. This proposed delay amount does not affect non-institutional fee-for-service providers.

- ◆ **Managed Care plans and Delta Dental under Medi-Cal**

The budget proposal includes a potential delay of \$232 million in August payments to those managed care plans that contract with Medi-Cal and Delta Dental until September 2008.

- ◆ **Fee-for-Service Providers under Medi-Cal**

The budget proposal includes a potential delay of \$165 million in a June 2008 payment to fee-for-service providers in Medi-Cal that would impact only Fiscal Year 2007-2008 with an additional proposal to have a reoccurring delay every June.

- ◆ **County Funding for administration under Medi-Cal**

Would delay a first quarterly payment of \$164.3 million to counties (largely through individual welfare departments conducting eligibility and other enrollment features) typically disbursed sometime between August and September. This delay would occur through September 2008.

- ◆ **County Funding for the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program**

This would delay a typical quarterly advance to counties of \$92 million for the EPSDT program from July until September 2008.

- ◆ **Regional Centers**

The budget proposal includes a proposed change in disbursement pattern resulting in delay of payment by \$400 million to Regional Centers for the upcoming fiscal year through reduction in the amount of advance payments for the months of July and August until September 2008.

Summary

Today's release of the Governor's January Budget Proposal clearly points to a difficult budget year still ahead. Without a doubt, many difficult choices have yet to be made regarding health care and health care coverage. It is possible that health care reform may, along with other reform measures, be what is needed at the state level in order to end what the Governor has called the 'binge and purge' nature of our state's budget. In the coming weeks, LCHC will be issuing an in-depth analysis of today's Budget Proposal. We welcome you to stay in touch with us as we continue to monitor the state's budget and its impact on California's Latinos.

An in-depth 'Budget Analysis' will be issued by LCHC in the coming weeks. Please visit our website at: www.lchc.org for more information.

Latino Coalition for a Healthy California (LCHC)
1225 Eighth Street, Suite 550
Sacramento CA 95814
Phone: (916) 448-3234
Fax: (916) 448-3248
Website: www.lchc.org

Staff:

Lupe Alonzo-Diaz
Executive Director

Verónica Montoya
Policy Director

Vanessa Cajina
Regional Networks Coordinator

Linda Nguy
Policy Associate

Daniela Reynoso-Miranda
Policy Coordinator,
Latino Health Alliance

Judy Melson
Office Manager



JOIN THE LATINO COALITION FOR A HEALTHY CALIFORNIA

RRN – Budget Summ 2008

The Latino Coalition for a Healthy California, a non-profit, public policy and advocacy organization dedicated to improving the health of Latinos, invites you to become a member. As a member, you will become part of a larger movement of students, professionals, medical providers, legislative staff and others who are interested in advancing the health of Latinos.

LCHC Membership

Benefits of dues-paying members of the Latino Coalition include the following:

- Subscription to monthly LCHC newsletter
- Discounts on registration fees to all LCHC events, including the biennial conference
- Invitations to all LCHC events, including legislative and community briefings
- Monthly electronic updates on legislative and budget issues
- Inclusion in the Rapid Response Network, LCHC's email listserv regarding pressing legislative issues
- Advanced release of select LCHC policy briefs
- Technical assistance with questions regarding legislative and budget issues
- Opportunity to participate in local health forums, such as the LCHC Regional Networks
- Inclusion in a Latino professional's online directory (Community Rolodex)
- Building a long-term relationship with companies and organizations that support Latino health
- Share information and collaborate in projects with other health professionals.

Affiliate Membership – Rapid Response Network

Affiliate members of LCHC do not pay dues and are included in the Rapid Response Network, LCHC's email list serve that provides up-to-date information regarding pressing health legislation and events. Affiliate members do not receive the other benefits of dues-paying members.

Check the following: I would like to become a dues-paying member of LCHC. I would like to become an affiliate member and be added to the Rapid Response Network (free).

Membership Fees

\$35 Student \$50 Individual \$150 Non-Profit \$500 Corporate

If you would like to become an LCHC member or an affiliate member, please email, fax or call with the following information:

Name: _____ Title: _____

Organization: _____

Address: _____

City/State/Zip: _____

Phone: _____ Fax: _____ Email: _____

Name on Credit Card: _____ Credit Card Number: _____

Credit Card Type: _____ Security Code (3-4 digits on back of card): _____ Expiration Date: _____

Please make all checks payable to the Tides Center/LCHC. The Latino Coalition for a Healthy California does not share its list of members with any other organization or entity.

Latino Coalition for a Healthy California | 1225 Eighth Street, Suite 500 | Sacramento, CA 95814
 Phone (916) 448-3234 | Fax (916) 448-3248
 For more information please email: LCHC@lhc.org