

The State Budget's Impact on the Medi-Cal Program and Other Services for Poor Californians

April 16, 2009

After the longest Senate session in California history, on Thursday, February 19 the California Legislature approved a massive budget plan that addresses shortfalls in both the current year budget and the upcoming 2009-10 budget. The Governor signed the package of dozens of bills on February 20. The budget package includes \$14.8 billion in spending cuts, \$12.7 in revenue increases, \$5.4 billion in borrowing, \$7.9 billion in federal stimulus dollars, and \$957 million in line-item vetoes for a total of more than \$41 billion in "budget solutions."

The federal stimulus bill includes an increased FMAP (federal medical assistance percentage) for states, but states are only eligible for these funds if they do not allow eligibility cuts. Fortunately, therefore, the Medi-Cal eligibility cuts proposed by the Governor were not enacted. However, the nine Medi-Cal benefits proposed for elimination, including adult dental benefits, are slated to be cut July 1, 2009.

What is in the Budget "Trigger"?

The following cuts are slated to go into effect on July 1, 2009 now that the Director of Finance and the Treasurer determined that \$10 billion in federal stimulus dollars will not be available by June 30, 2010 to offset state General Fund costs.

- Eliminate certain Medi-Cal benefits for adults¹ \$129.4 million
(dental, podiatry, acupuncture, chiropractor, incontinence creams and washes, speech and audiology services, psychology, and optician/optical laboratory)
- Cut Public Hospital Rates by 10% \$54.2 million
- Reduce CalWORKs grants by 4 percent \$146.9 million
(approximately \$30 from a family of three receiving the maximum grant of \$723)
- Reduce SSI grants by 2.3 percent \$267.8 million
(approximately \$20 per month for individuals and \$35 per month for couples)

¹ All of these benefit cuts affect only adults – not children. Moreover, adults in nursing homes will still be eligible for the benefits. Emergency dental services and dental services that could be performed by a doctor will continue to be provided as will pregnancy-related services.

- Cap IHSS Wages² \$78.0 million
- University of California and California State University \$100 million
- Judicial Branch \$171 million

What Cuts Are in the Budget Regardless of the “Trigger”?

CalWORKs

- Suspend the July 2009 Cost of Living Adjustment (COLA) \$79.1 million
- Delay LEADER Computer System for LA County \$14.6 million
- Suspend 2009-10 Pay for Performance Funding \$40 million

SSI

- Capture January 2009 federal SSI COLA³ \$567.1 million
- Suspend June 2010 state SSP COLA \$27 million⁴

Medi-Cal

- Eliminate County Administration COLA \$24.7 million

County Deferrals

The budget allows the state to defer payments to Medi-Cal providers and plans for one month and to delay payments to counties for public benefit programs for July and August 2009.

What Was Not Included in the Budget?

Medi-Cal. Proposals by the Governor to cut Medi-Cal which were **not** in the final budget package are:

- Reducing eligibility for working parents through the 1931(b) Medi-Cal Program.
- Reducing eligibility for Medi-Cal for seniors and persons with disabilities and requiring them to pay for more of their care.

² This reduction would limit the state’s contribution to \$9.50 per hour and \$.60 per hour for benefits and would eliminate the share-of-cost buy-out program for new recipients after July 1, 2009.

³ The federal SSI COLA was provided to recipients on January 1, 2009 as scheduled. This increased the maximum value of the SSI grant from \$870 to \$907 a month. The budget would return the maximum SSI grant level to \$870 starting in May 2009.

⁴ This figure only shows the savings to the state in 2009-10 budget. For 2010-11 the full 12 months value of the suspension saves the state \$324.5 million. Thus the actual cuts to the blind, aged and disabled are in excess of \$890 million.

- Requiring undocumented immigrants to reapply monthly for limited Medi-Cal benefits.
- Drastically reducing health benefits for some legal immigrants.

Also not included in the budget were even more draconian cuts to CalWORKs than those enacted.

Suspension of Mid-Year Status Reports for Children to Get Federal Dollars

In order to qualify for the increased FMAP, states cannot restrict eligibility standards, methodologies or procedures for their Medi-Cal program beyond those in place on July 1, 2008. Accordingly, to receive the federal dollars, in addition to rejecting the above eligibility cuts, the California Legislature had to rescind the imposition of Mid-Year Status Reports for children enacted as part of the 2008-09 state budget. These reports which require children to reapply for Medi-Cal twice a year were suspended for the time period the state gets the higher FMAP rate through SBx3 24.

Other Budget Components Including Ballot Initiatives

As outlined below, the budget includes several proposals that require voter approval. These propositions will be on a special election ballot May 19, 2009.

Spending Cap / Proposition 1A

As part of the budget agreement a spending cap will go before voters. This cap would limit annual spending growth to the average budget growth of the previous ten years. This would essentially lock in the current budget amounts into perpetuity and make it almost impossible to expand programs or meet emerging needs. Amounts above the ten-year trend would go into a “rainy day fund” but could only be withdrawn when revenues fall below a certain level. The state would have to deposit 3% of annual revenues into the fund until the fund equaled 12.5% of General Fund revenues.

Prop 63/Proposition 1E and Prop 10 / Proposition 1D

The special election May 19 will include two budget proposals requiring voter approval to shift special funds to other uses. Under the first, the budget would re-direct Proposition 63 / Mental Health Services Act funds in the amount of \$226.7 million in 1009-10 and up to \$234 million in 2010-11. Under the second, a portion of Proposition 10 children’s program funds could be used for state health and human services programs: a one-time transfer of between \$275 and \$340 million in reserve funds and \$268 million annually for five years starting in 2009-10.

Lottery Securitization / Proposition 1 C

The budget assumes the state will get \$5 billion from selling bonds backed by lottery proceeds. This measure must be approved by the voters.

Proposition 1F, if approved, would prevent state-level elected officials from receiving pay raises in years when the state is running a deficit.

Temporary Taxes

In exchange for the spending cap and the program cuts, the state would increase revenue by \$12.7 billion. The tax increase sunsets in five years or in two years if voters reject the spending cap at the ballot. In either case they are temporary but the spending cap is permanent. The temporary taxes include:

- Sales Tax increased by 1 percent \$5.75 billion
- Vehicle License Fee increased to 1 percent \$1.33 billion
- Income Tax Surcharge of 2.5 percent⁵ \$1.62 billion
- Reduce Dependent Credit \$1.44 billion

Tax Giveaways

To sweeten the deal for some legislators, a series of tax breaks were agreed to. These new loopholes are being sold as economic stimulus but will reduce General Fund revenue in future years including:

- Elective Single Sales Factor for Multinational Corporations
- \$3,000 per person Hiring Credit (\$345 million lost revenue through June 2010)
- Film Industry Tax Credit (\$100 million annual lost revenue)

May (or June?) Revise

This budget proposal, if everything works perfectly, would result in an estimated \$41.6 billion in solutions. But because many of the proposals require voter approval, it is likely that the budget will need revisiting after the vote. Also, the Legislative Analyst Office has already estimated additional budget shortfalls of \$8 billion in 2009-10. More exact revenue numbers will be available after tax receipts are tallied in April. The usual May Revision will address these likely shortfalls though it may become the “June Revise” because it will likely be after the special election results on May 19.

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⁵ This would be cut in half if the “budget trigger” is pulled.