

CALIFORNIA BUDGET PROJECT

# An Overview of Recent Cuts to California's Safety Net

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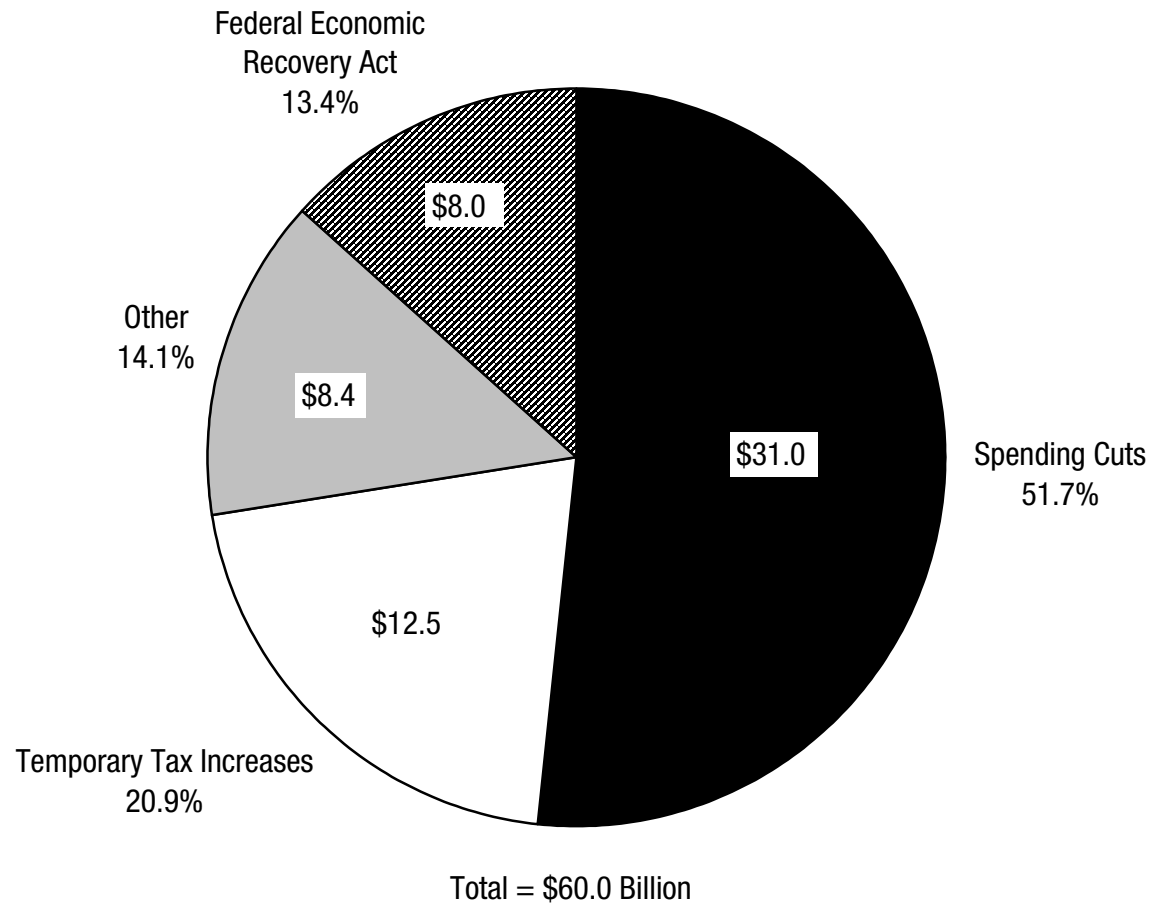
# Summary

- In response to an unprecedented budget shortfall, the February and July budget agreements made significant funding cuts and policy changes targeting safety-net programs for low-income and vulnerable Californians.
  - The impact of most of these funding cuts and policy changes is already being felt across California.
  - In a few cases, the impact of the funding cuts and policy changes either is unclear or will occur in subsequent years.
- Policymakers made cuts to safety-net programs even as they preserved new corporate tax breaks that will cost the state \$2 billion – and potentially as much as \$2.5 billion – per year and further undermine the state’s revenue base.
- Cuts made in the February and July budget agreements will be difficult to reverse quickly.



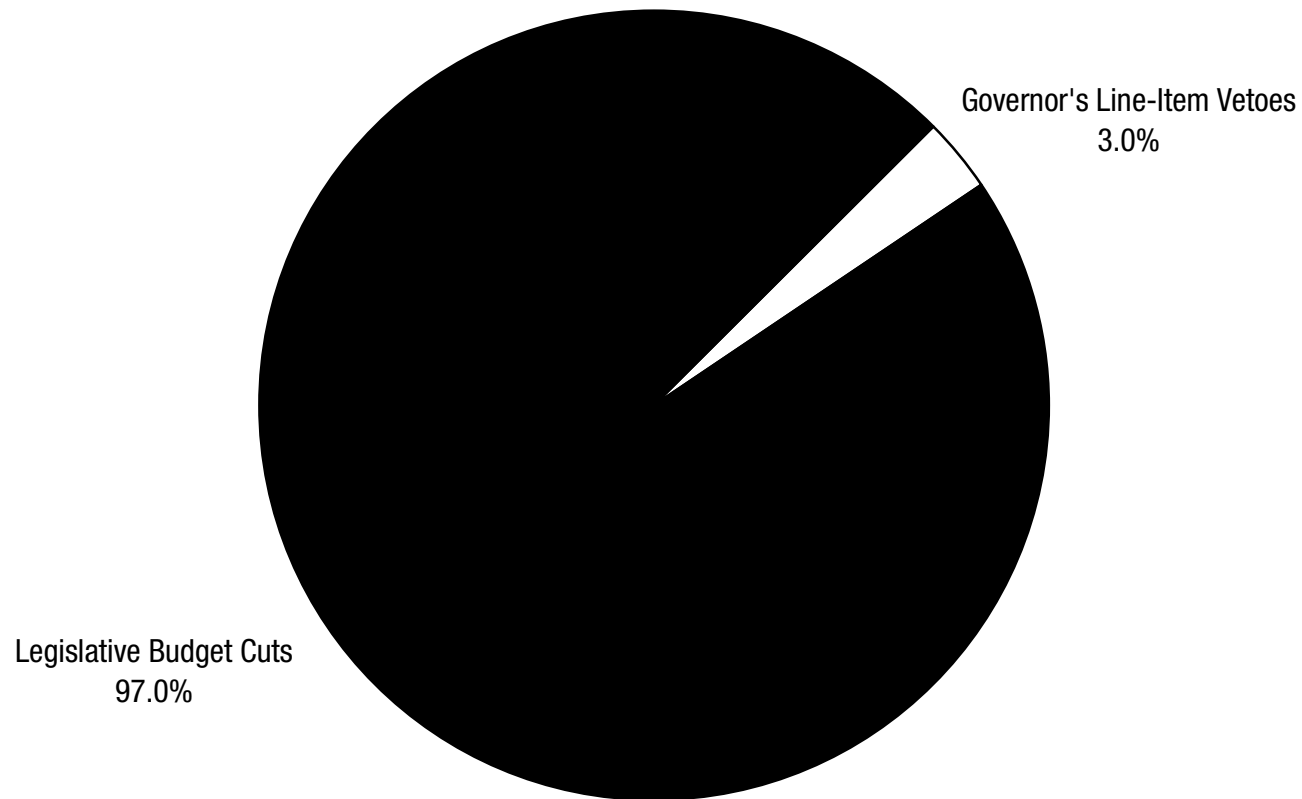
# The February and July Budget Agreements Made Significant Funding Cuts and Policy Changes Targeting Safety-Net Programs

## How the Budget Gap Was Closed (Dollars in Billions)



Note: Includes February and July 2009 budget agreements.  
Source: Department of Finance

The Governor's Line-Item Vetoes Represent 3.0 Percent of the  
Total Expenditure Reductions in the July 2009 Budget Agreement



Total Expenditure Reductions = \$16.1 Billion

Source: Department of Finance

# SSI/SSP Program — Immediate Impact

- The February and July budget agreements included three SSI/SSP grant cuts during 2009, effective May 1, July 1, and October 1, for total savings of \$871.0 million in 2009-10.
  - The maximum monthly grant for individuals will drop to \$845 on October 1, down from \$907 on April 1, a \$62-per-month (6.8 percent) cut.
  - The maximum monthly grant for couples will drop to \$1,407 – the federal minimum – on October 1, down from \$1,579 on April 1, a \$172-per-month (10.9 percent) cut.

# SSI/SSP Program — Impact in 2010 and Beyond

- The February budget agreement suspended the June 2010 state cost-of-living adjustment (COLA) for SSI/SSP grants for one-month savings of \$27.0 million in 2009-10 — the fifth consecutive year that the statutory COLA has not been provided.
- The July budget agreement permanently eliminated the statutory state COLA for SSI/SSP grants effective June 2011.
  - The federal COLA on the SSI portion of the grant is not affected by this change.

# CalWORKs Program — Immediate Impact

- The February budget agreement:
  - Suspended the July 2009 COLA for CalWORKs grants for savings of \$79.1 million in 2009-10 – the fifth consecutive year that the statutory COLA was not provided.
  - Cut grants by 4 percent effective July 1, 2009 for savings of \$146.9 million in 2009-10. The maximum monthly grant for a family of three dropped from \$723 to \$694 – the same amount as in 1989.
- The July budget agreement:
  - Cut funding to counties for employment services and child care by more than \$370 million in 2009-10.
  - Exempted certain parents who have young children from work participation requirements through June 2011.

# CalWORKs Program — Impact in 2010 and Beyond

- The July budget agreement permanently eliminated the statutory COLA for CalWORKs grants effective July 2010.
- The July budget agreement also made several major policy changes scheduled to take effect in 2011. These changes:
  - Limit adults to 48 cumulative months of cash assistance in any 60-month period. (The lifetime limit remains at 60 months.)
  - Require certain adults to attend a “self-sufficiency review” with county workers; adults who fail to attend without good cause will have their grant reduced by 50 percent.
  - Cut, by up to 50 percent, grants for children in households in which adults do not meet work participation requirements. (This change affects children in sanctioned, safety-net, and certain child-only households.)

# IHSS Program — February Budget Agreement

- The February budget agreement:
  - Reduced the maximum amount at which the state will share in the cost of wages and benefits for IHSS workers from \$12.10 per hour to \$10.10 per hour effective July 1, 2009.
  - A federal judge stopped this cut from taking effect.

# IHSS Program — July Budget Agreement

- The July budget agreement, as approved by the Legislature, eliminated – with some exceptions – “domestic and related services” for certain IHSS recipients and all IHSS services for other recipients for savings of \$53.2 million in 2009-10. These changes take effect September 1, 2009.
  - However, the Governor asserted that no exceptions to the new restrictions on domestic and related services should be allowed. Consequently, he vetoed an additional \$29.8 million in state funding for IHSS to reflect the fact that more IHSS recipients will be affected by service reductions.
- The July budget agreement also eliminated, effective October 1, 2009, the state subsidy for IHSS recipients who must pay a share of cost for services for savings of \$41.1 million in 2009-10.

# Child Welfare Services and Foster Care Programs

## Child Welfare Services Program

- In July, the Governor vetoed \$80.0 million from the 2009-10 appropriation approved by the Legislature.

## Foster Care Program

- The July budget agreement cut three foster care rates – those for foster family agencies, group homes, and seriously emotionally disturbed children – by 10 percent for savings of \$26.6 million.

# Healthy Families Program

- The Healthy Families Program faces a \$194 million state funding shortfall in 2009-10.
  - This shortfall is due primarily to the Legislature’s \$124 million reduction and the Governor’s \$50 million line-item veto, both of which were part of the July budget agreement.
- In order to cut spending, the agency that oversees Healthy Families established an enrollment freeze on July 17 and voted to drop children from the program starting October 1. More than 1 million children could lose or be denied access to Healthy Families in 2009-10 due to these actions, according to state estimates.
- On August 13, the state First 5 Commission voted to provide up to \$81.4 million of its own tobacco-tax dollars to support about 200,000 children from birth to age 5 in Healthy Families through June 2010.

# Community Clinic Programs

- The Legislature reduced General Fund support for community clinic programs by \$10.1 million in 2009-10.
- In July, the Governor vetoed an additional \$25 million to eliminate all General Fund support for these programs for total state savings of \$35.1 million in 2009-10.
- The following community clinic programs are affected by this cut:
  - Expanded Access to Primary Care Program (\$13.5 million).
  - Rural Health Services Development Program (\$8.2 million).
  - Seasonal Agricultural and Migratory Workers Program (\$6.9 million).
  - Indian Health Program (\$6.5 million).

# Medi-Cal Program — February Budget Agreement

- The February budget agreement:
  - Eliminated 10 optional benefits, including dental services, for most adults effective July 1, 2009 for savings of \$122.2 million in 2009-10.
  - Reduced payments to public safety-net hospitals by 10 percent for savings of \$54.2 million in 2009-10.
  - Suspended the July 2009 “cost-of-doing-business” increase for county operation of Medi-Cal for savings of \$24.7 million in 2009-10.

# Medi-Cal Program — July Budget Agreement

- The July budget agreement:
  - Assumes \$1 billion in state savings in 2009-10 from obtaining additional federal funds. It is not clear what will happen if these federal funds are not provided.
  - Assumes an additional \$323.3 million in state savings in 2009-10 due to unspecified reductions.
  - Reduced payments to private safety-net hospitals by 10 percent for savings of \$23.9 million in 2009-10.
- In July, the Governor used his line-item veto authority to cut state funding for county operation of Medi-Cal by \$60.6 million below the level approved by the Legislature.

# Medi-Cal Waiver

- The July budget agreement (AB 6xxxx) requires the state to submit a waiver to the federal government that includes “restructuring proposals” aimed at improving coordination of care for several groups, including seniors and people with disabilities; improving health outcomes; and slowing the rate of growth of Medi-Cal spending.
- The waiver could result in more Medi-Cal beneficiaries being required to enroll in managed care, but must include criteria by which the state will evaluate and grant exemptions.
- AB 6xxxx aims for federal approval by September 1, 2010, or by the time the state’s current Medi-Cal hospital waiver expires.

# Centralized Eligibility Processing

- Currently, county employees determine Californians' eligibility for CalWORKs, Medi-Cal, and the Supplemental Nutrition Assistance Program (still known as the Food Stamp Program in California).
- The July budget agreement (AB 7xxxx) established a process to shift this responsibility from the counties.
- If implemented, this change would likely result in a private contractor taking over eligibility processing, despite the fact that other states' privatized systems have failed.
- AB 7xxxx permits the Administration to proceed with procurement activities after the Legislature approves a comprehensive plan – which must be developed in consultation with stakeholders – and provides funding.

# Other Key Funding Cuts

- The February and July budget agreements made significant cuts to other programs that are not generally considered part of the safety net. Affected programs include:
  - Developmental Centers and Regional Centers (the Legislature cut \$334 million; the Governor vetoed an additional \$50 million).
  - AIDS/HIV programs (the Legislature reduced funding; the Governor vetoed all remaining funding for most AIDS/HIV programs).
  - Domestic Violence Shelter Program (the Legislature reduced funding by 20 percent; the Governor vetoed all remaining funding).
  - Maternal, Child and Adolescent Health programs (the Legislature reduced funding; the Governor vetoed all remaining funding).
  - Children’s Dental Disease Prevention Program (the Legislature suspended the program).

# It Could Have Been Worse

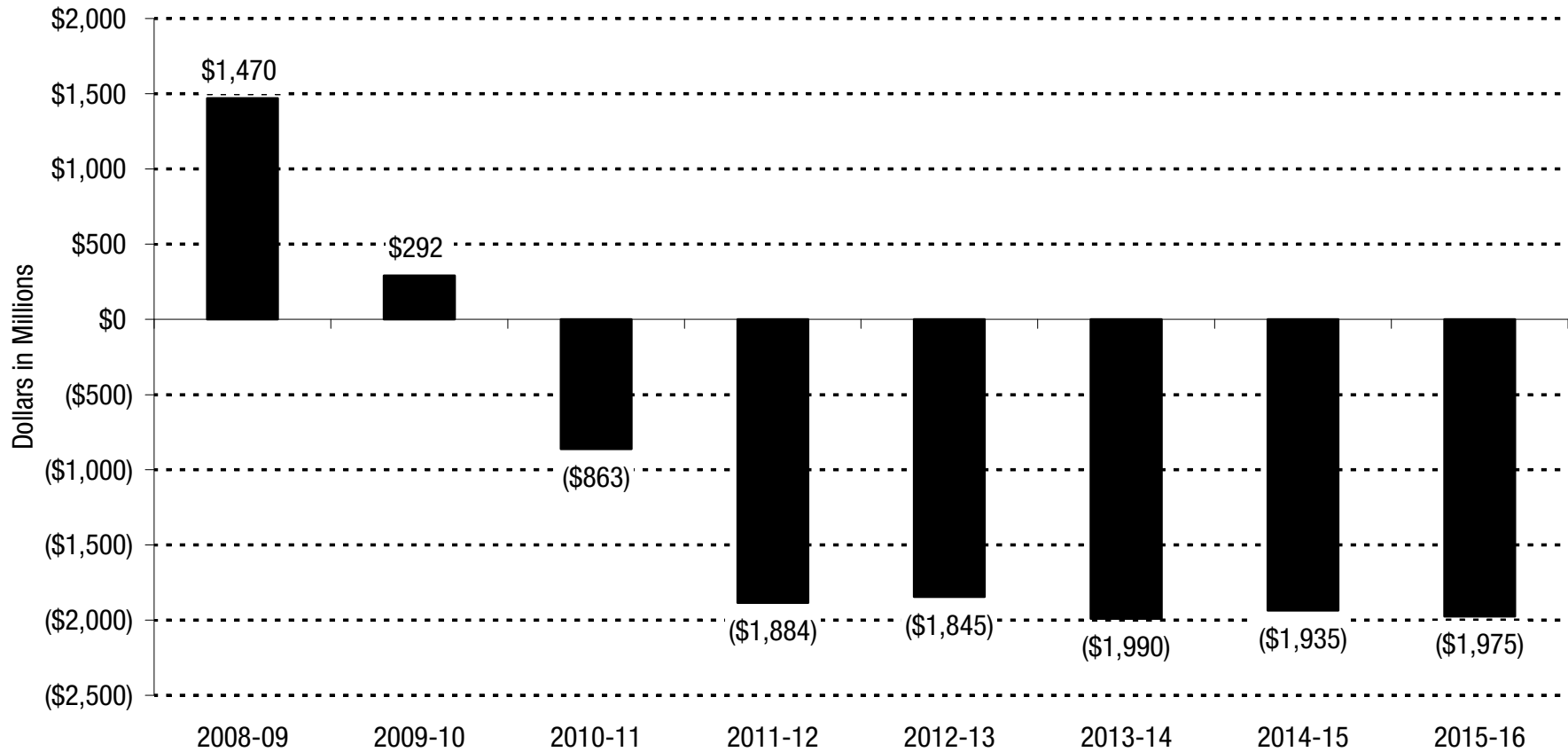
- The Legislature rejected the Governor's 2009-10 proposals to:
  - Eliminate the Healthy Families Program.
  - Eliminate Medi-Cal Adult Day Health Care Program services.
  - Eliminate the CalWORKs Program.
  - Eliminate services for more than 400,000 IHSS recipients – nearly 90 percent of the caseload.
  - Reduce the hourly wage for IHSS providers to the state's minimum wage of \$8.00 per hour.
  - Eliminate the Cash Assistance Program for Immigrants.
  - Eliminate the California Food Assistance Program.
  - Limit Medi-Cal benefits provided to certain immigrants, including legal immigrant adults in the US for less than five years, to emergency services.



# Policymakers Made Cuts to Safety-Net Programs Even as They Preserved New Corporate Tax Breaks, Further Undermining the State's Revenue Base

## 2008 and 2009 Tax Cuts Will Cost \$2 Billion Per Year at Full Impact

Losses Will Continue Permanently



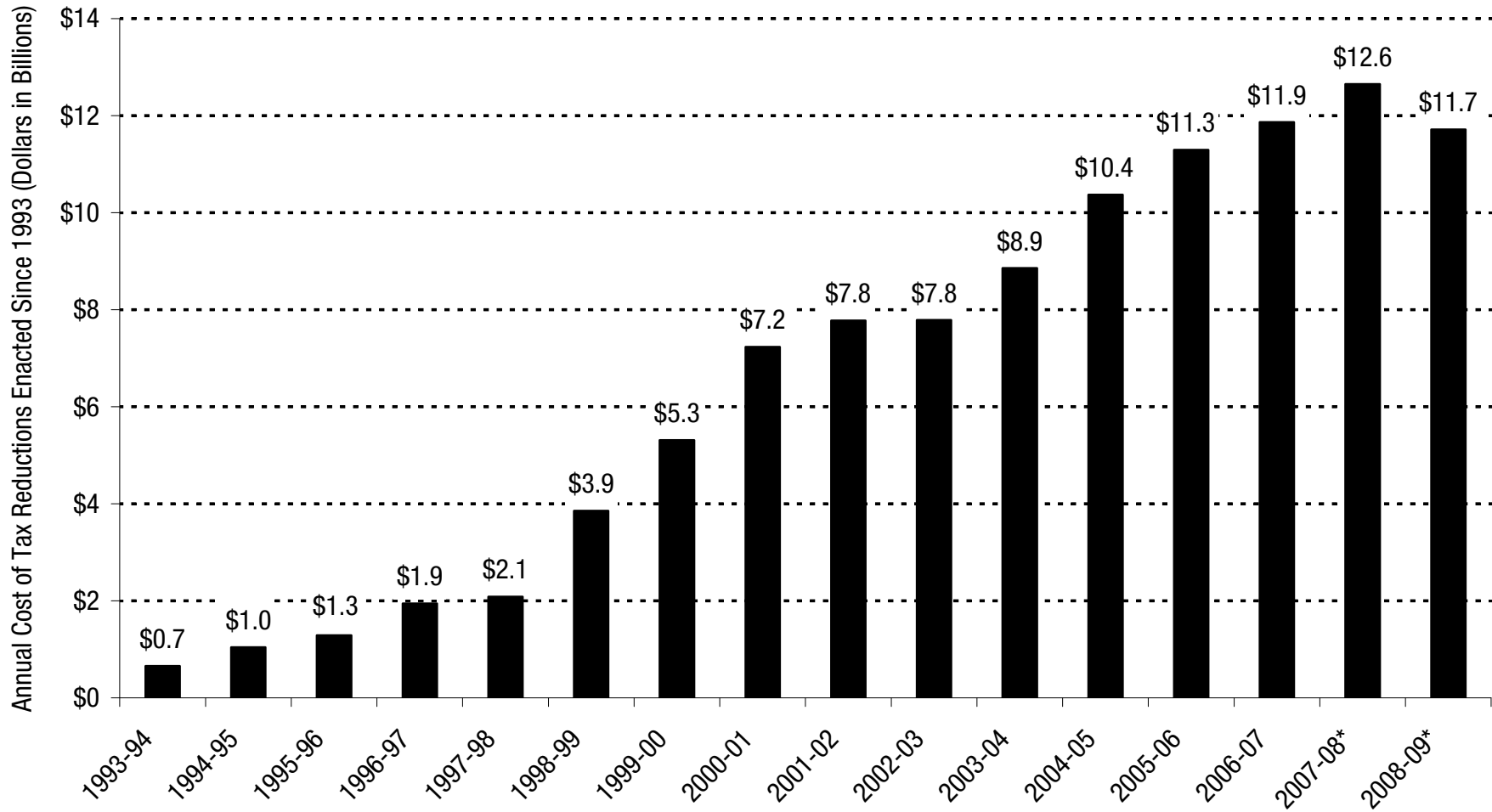
Net Cost of Tax Cuts in the September 2008 and February 2009 Budget Agreements

Note: Includes temporary business tax cuts enacted in February 2009.

Source: Franchise Tax Board

## Tax Cuts Enacted Since 1993 Cost an Estimated \$11.7 Billion in 2008-09

### 2008-09 Drop Reflects Suspension of Net Operating Loss Deductions



\*2007-08 and 2008-09 estimated.

Source: Assembly Revenue and Taxation Committee, Board of Equalization, Department of Finance, Franchise Tax Board, and Legislative Analyst's Office

# Cuts Will Be Difficult To Reverse Quickly

- California is likely to face budget shortfalls for the foreseeable future because:
  - The February and July budget agreements rely heavily on one-time “solutions” to bridge the budget gap.
  - Billions of federal economic recovery dollars that are helping to bridge the gap will expire during or soon after 2010.
  - The tax increases enacted in February 2009 expire after two years.
  - Corporate tax cuts enacted in 2008 and 2009 have the potential to permanently reduce state revenues by upwards of \$2.5 billion each year.
  - The state’s economy is likely to remain weak for some time to come, limiting the growth of General Fund revenues.
- It will be difficult for state policymakers to quickly reverse cuts to safety-net and other programs, particularly in the absence of additional revenues.
- The supermajority vote requirement to pass a budget and any tax increase undermines policymakers’ ability to achieve a lasting budget solution.

## California Is the Only State To Require a Supermajority Vote To Pass Both a Budget and Any State Tax Increase



Note: Arkansas, Florida, and Michigan require a supermajority vote for certain taxes.

Source: National Conference of State Legislatures