



THE CALIFORNIA BUDGET AND HEALTH PROGRAMS: A SUMMARY

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February 2009

Summary:

Total Budget: \$130 billion¹

Deficit Before Solutions: \$41.6 billion²

Spending Cuts: \$14.9 billion³

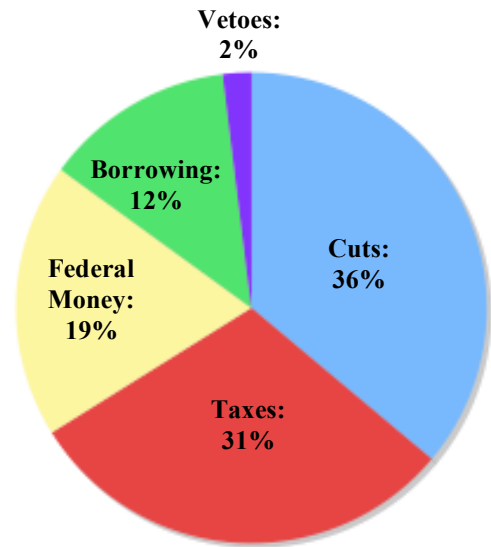
Line-Item Veto: \$957.2 million

Tax Hikes: \$12.9 billion

Expected Federal Funds: \$7.9 billion⁴

Borrowing: \$5 billion⁵

Contingencies: Economic Stimulus Package and the May 19, 2009 Special Election



Budget Solutions

Background

The stock market and dot-com success in 1998-1999 increased California's revenue by about 23%. This led to the tax cuts and spending increases that produced the structural budget deficit that has plagued the state since. In times of deficit, one-time solutions, including borrowing, were used to balance the budget without either cutting back on funding for programs or restoring the tax cuts. In 2005-2006, most of the growth in revenues was used to pay back loans and backfill for revenue losses (such as from vehicle license fees).

The structural deficit has continued, playing a part in the estimated \$41.6 billion shortfall along with declining revenues in an economic recession. The budget proposal intends to bring spending and revenues closely in line with their average annual growth since 1998—4.67% and 4.75%, respectively.

The state has been dealing with the unprecedented circumstance of reconciling a huge budget gap in a time of economic crisis. Despite continued disagreements about tax hikes or budget cuts, Governor Arnold Schwarzenegger and the Legislature were able to pass a budget to reduce the

¹ The next fiscal year General Fund budget is \$92.2 billion, beginning July 1, 2009.

² There is a \$14.8 billion deficit in 2009, growing to \$41.6 billion by the end of next fiscal year.

³ Of the \$14.9 billion in cuts, the total cuts to the Health and Human Services Agency are \$1.6 billion.

⁴ This is the total amount expected from the Economic Stimulus Package that may be used to reduce General Fund spending.

⁵ This includes borrowing \$5 billion from the sale of bonds backed by future lottery proceeds. The Revenue Anticipation Warrants (RAWs) were eliminated and replaced by federal funds expected through the Economic Stimulus Package.



deficit and move to restore the balance between spending and revenues for the future. With swift implementation, both sides hope to have prevented further damage to the state’s economy.

About one-third of spending from the state’s General Fund goes to California Health and Human Services Agency (HHS) programs serving vulnerable populations. In fact, HHS expenditures are the second largest outlay for the general fund after education—with the biggest expenses by HHS being the state’s Medicaid program, Medi-Cal. To balance the budget as required by Proposition 58 and restore the state’s cash flow in the near term, the Governor and legislators made cuts of \$1.6 billion to HHS programs. The additional \$947.7 million in gubernatorial line-item vetoes did not put additional restrictions on HHS spending.

Contingencies

Trigger Reductions and the Economic Stimulus Package:

Some of the cuts outlined in the budget proposal are contingent upon receipt of \$10 billion in federal funding through the Economic Stimulus Package (American Recovery and Reinvestment Act) in the next fiscal year. These have been termed “trigger reductions” and will be decided upon by April 1, 2009. If the Treasurer and Director of Finance determine that California will receive an anticipated \$10 billion before the end of FY 2009-10 (June 30, 2010) the trigger reductions will be eliminated. If anything less than \$10 billion is received or if the full allotment cannot be guaranteed by June 30, 2010, however, the trigger will be pulled, i.e., the cuts will be implemented on July 1, 2009.

Currently, the state can only estimate what it might receive from the Economic Stimulus Package. It will need to make some program changes to meet requirements associated with the Federal Medical Assistance Percentage (FMAP) funding increase.⁶ In addition, it will need to compete for and/or match other funding available through the Package. For example, included in the Package are competitive grants to states and Indian tribes for the development of loan programs to enhance the adoption of electronic health records (EHRs). States receiving these grants must provide matching funds for EHRs, in addition to other requirements.

The Administration is hopeful but does not expect to get enough federal money to offset the trigger reductions. The state expects to receive approximately \$7.9 billion in funding.^{7,8} If the

⁶ To secure additional funding for expenditures between October 1, 2008 and December 31, 2010, states must maintain eligibility requirements in place in July 2008—or reinstate them by July 1, 2009. States with higher unemployment increases will receive greater assistance through July 1, 2010.

⁷ Based on an estimated receipt of \$7.9 billion in federal funding, the state has done away with the proposal to sell Revenue Anticipation Warrants (RAWs), which contributed about \$5.9 billion of the proposed borrowing in the budget.

⁸ In other words, of the approximately \$144 billion allocated to states for “state and local fiscal relief” to prevent state and local cuts to health and education programs and tax hikes, California expects about \$7.9 billion in the first fiscal year, i.e., through June 30, 2010. Funding that is not directly received by the state or received in FY 2009-10 will not offset the \$10 billion trigger.



\$7.9 billion estimated from the Economic Stimulus Package for FY 2009-10 remains intact, these reductions will be implemented.

The May 19, 2009 Special Election Ballot Measures:

A further contingency is voter approval of several ballot measures described below.

Proposition	Description
Prop 1A	In return for an extension of two additional years for the revenue enhancements noted in <i>Tax Hikes</i> below, a spending cap on the General Fund is proposed. To create a “rainy day” fund, 3% of annual General Fund revenues would have to be deposited into the Budget Stabilization Fund (BSF) until it reached 12.5% of General Fund revenues. This level would need to be reached after accounting for the requirement that half of the contribution be put in an account used to restore education funding and/or debt service and capital outlays. Use of the funds in the BSF would be limited to the difference between revenues and the previous year’s spending adjusted to the Consumer Price Index and population growth and for use only in bad budget years. Unanticipated revenues—the difference between estimated revenues and either the previous year’s adjusted spending or the revenue forecast—would either be shifted to the BSF or used to fulfill other obligations.
Prop 1C	The budget proposes selling \$5 billion worth of bonds backed by future lottery revenues from a new and improved lottery to improve California’s cash flow under Prop 1C.
Prop 1D	The budget proposes a five-year reallocation of \$275-\$340 million from the Prop 10 State Commission reserve (funds for First 5) and a reduction of funding to state and local commissions by 50% under Prop 1D. The total redirection of Prop 10 funding is \$608 million in 2009-10, and \$264.4 million yearly through 2014. This proposition would shift Prop 10 fund expenditures for early childhood health care and education programs to existing children’s programs, replacing the state General Fund expenditures, which are being cut. ⁹
Prop 1E	The budget proposes a two-year reallocation of \$226.7 million in 2009-10 and \$234 million in 2010-11 from new Proposition 63 ¹⁰ programs under Prop 1E. Redirected funding will be used to fund the existing Early Periodic Screening, Diagnosis and Treatment Program for mental health services to low-income children.

Cuts: \$14.9 Billion

Nearly \$15 billion of cuts have been made in the budget. These include primarily cuts to schools and higher education, health care programs, and institutions and services to the poor. However, additional spending cuts come from the consolidation and realignment of administrative functions in government. A series of commissions and functions will be eliminated, streamlined or combined to prevent duplication and therefore reduce cost. Additional measures, such as a reduction in the dependent credit Californians claim on their taxes, environmental and labor concessions, and reductions in the number of paid holidays for state workers, will be used to reduce spending along with last minute cuts from “blue pencil” vetoes made by Governor Schwarzenegger.

⁹ First 5 was financed by Proposition 10, which increased the state tobacco tax in 1998 to fund early childhood health care and education programs. Without voter approval, funds for these programs will remain as an obligation to the General Fund.

¹⁰ In 2004, the state income tax was increased for high-income residents to fund mental health.



Before signing the budget, Governor Schwarzenegger made \$957.2 million worth of line-item vetoes on top of the initial \$14.9 billion in cuts. This included at least a 10% reduction to most of the Constitutional Offices' budgets (\$47 million), replacing General Fund dollars with federal funds for higher education in the University of California and California State University systems (\$255 million each), and cuts in the California Department of Corrections and Rehabilitation (\$400 million).

The total cuts and trigger reductions to HHS programs currently amount to \$1.6 billion.

Cuts to HHS:

Department and Method	Savings 2008-09	Savings 2009-10
Department of Developmental Services		
Reduction in regional center provider payments and operation cost funding, down 3% effective 2/1/09	\$28.7 million	\$72.4 million
Cost containment efforts in regional centers to prevent further payment and funding reductions, proposals due 4/1/09	\$0	\$100 million
Department of Health Care Services		
Suspension of FY 2009-10 COLA for county Medi-Cal administration staff salary increases, down 4%	\$0	\$24.7 million
Department of Social Services		
Suspension July 2009 COLA for CalWORKS, down 2.94%	\$0	\$79.1 million
Suspension of CalWORKs pay for performance program	\$0	\$40 million
Suspension of LEADER Replacement project in Los Angeles, an effort to update the Statewide Automated Welfare System	\$0	\$14.6 million
Suspension of January 2009 COLA for SSI/SSP, down 5.8% effective 5/1/09	\$79.8 million	\$487.3 million
Suspension of June 2010 COLA for SSI/SSP, down 2.94%	\$0	\$27 million
Department of Child Support Services		
Changes to the automated child support system	\$0	\$36.1 million
Total		\$989.7 million

Trigger Reductions to HHS:¹¹

Method	Savings 2008-09	Savings 2009-10
Department of Health Care Services		
Elimination of nine of the 34 currently covered optional Medi-Cal benefits for adults 21+ who are not in a nursing facility: acupuncture, adult dental, audiology and speech therapy, chiropractic care, incontinence creams and washes, optician/optical lab and optometry services, podiatry, psychological services	\$0	\$129.4 million
Hospital Financing Waiver		
Reduction in public hospital reimbursement paid through the Safety Net Care Pool for uncompensated care to the uninsured, down 10%	\$0	\$54.2 million
Department of Social Services		

¹¹ If approved, these trigger reductions will be effective July 1, 2009.



CalWORKS grant reduction, down 4%	\$0	\$146.9 million
SSI/SSP grant reduction, down 2.3%	\$0	\$267.8 million
Reduction in In-Home Supportive Services provider wage cap from \$12.10 per hour to \$9.50 per hour plus \$0.60 per hour for benefits, down 16.5%	\$0	\$74.2 million
Limit In-Home Supportive Services Share-of-Cost (SOC) program to recipients enrolled prior to July 1, 2009, i.e., the program will no longer pay the difference between SOC of Medi-Cal and the SOC for IHSS for those eligible for both programs	\$0	\$3.8 million
Total		\$676.3 million

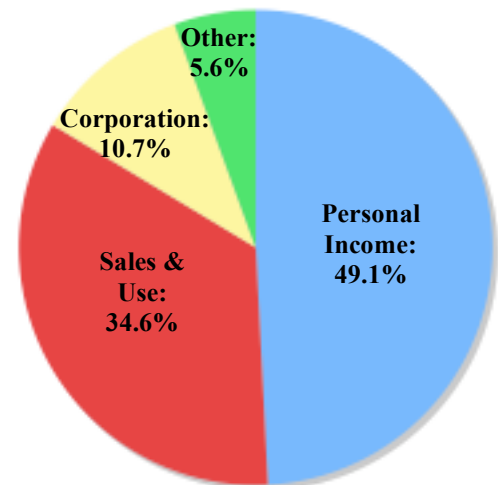
Borrowing: \$5 Billion¹²

The state continues to propose to sell \$5 billion worth of bonds backed by future lottery proceeds, as noted above.

Tax Hikes: \$12.9 Billion

To eliminate the budget deficit and account for expected revenue declines, the state has passed a budget that includes revenue enhancements.

The key source of revenue in California comes from the personal income tax. Highly progressive, the state expects this revenue to decline by 13.7% in 2008-09 but increase 2.4% in the next fiscal year. Much of the decline is due to a poor economy affecting the income of high-wage earners. In 2009-10, California anticipates this tax to account for 49.1% of revenues after its expected overall decline. To buffer this decrease, the budget includes a 0.25% increase in the personal income tax.



Sources of Revenue from Taxes

Second in rank are proceeds from the Sales and Use Tax, which is expected to account for about 34.6% of state revenues. The state plans to impose a 1% sales tax increase, as well as broadening the base from which this tax is drawn—to include some additional services, e.g., vehicle repair, amusement parks and sporting events, and veterinary services.

Additional changes are listed below. Some of the proposed taxes are temporary. They are tied to a ballot measure to be voted on during a special election on May 19, 2009. If voters approve a spending cap to limit future state expenditures, the taxes will remain in effect for four years. If rejected, the taxes will last for two years.

¹² The state was going to help manage its cash flow by selling nearly \$6 billion in Revenue Anticipation Warrants (RAWs), but eliminated this proposal based on the expected receipt of \$7.9 billion in federal stimulus funds.



Method	Revenue 2008-09	Revenue 2009-10
Increased Sales and Use Tax, 4/1/09-6/30/12 if spending cap approved (otherwise 6/30/11)	\$1.2 billion	\$4.55 billion
Increase in the Vehicle License Fee from 0.65% to 1.15%, 5/19/09-6/30/13 if spending cap approved (otherwise 6/30/11)	\$345.9 million	\$1.69 billion
Increase in personal income tax by 0.25%, reduced with federal funding and in effect through 2012 if spending cap approved (otherwise through 2010)	\$0	\$3.66 billion
Reduction in the dependent credit	\$0	\$1.44 billion
	Total	\$12.9 billion

Continuing Discussion of Health Reforms and an 1115 Waiver

The Administration states that it is open and willing to receive stakeholder input related to both health reform and budget solutions—be it in the context of this crisis, renewing the state hospital financing waiver set to expire in 2010, developing contingency plans for the budget based on the special election and revised tax income, or other methods to improve cost, quality and access in the state’s health care system. If there are ideas for effective ways to contain costs and improve cash flow in both the near and long term, the Administration encourages dialogue to discuss and analyze the benefits and costs of alternative approaches.

Resources:

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