

California Family Resource Association

Analysis of the Governor's May Budget Revision

May 2010

What does it mean for family serving organizations?

May Revision to the 2010-11 Governor's Budget addresses a remaining General Fund budget gap of \$19.1 billion, \$7.7 billion for the 2009-10 fiscal year, \$10.2 billion for the 2010-11 fiscal year, and a modest reserve of \$1.2 billion. Overall General Fund expenditures for 2010-11 are approximately \$0.5 billion above those proposed in the 2010-11 Governor's Budget. The chart below depicts where state revenues are generated.

2010-11 May Revision General Fund Revenue Sources (in millions)

Source	Amount Available May 2010
Personal Income Tax	\$46,245
Sales Tax	\$26,967
Corporation Tax	\$9,779
Insurance Tax	\$1,967
Tobacco Taxes	\$99
Liquor Tax	\$332
Other	\$3,647
TOTAL	\$91,451

What Happened to the Revenues?

The state entered the month of April with revenue collections \$2.7 billion above levels forecast in the Governor's January budget. Weak April tax collections, however, more than reversed the gain, coming in \$3.1 billion below anticipated levels. The May Revision anticipates that combined 2009-10 and 2010-11 revenues will be \$567 million above the level forecast in January. It is worth noting, however, that both the January and May forecasts include \$892 million based on an assumption that the "pick up" tax – a provision in the federal Estate Tax – is reinstated beginning January 1, 2011. Federal policy experts doubt that this will occur.

Federal Health Care Reform

As a result of the new federal health reform law, the May Revision does not include a number of the Governor's January health care proposals that were aimed at reducing eligibility and enrollment in both the Medi-Cal Program and the Healthy Families Program (HFP). The Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010 require states to maintain eligibility standards for their Medicaid Program and 3 Children's Health Insurance Programs (CHIP) (there are three types of CHIP Programs: 1. Separate SCHIP Program; 2. Medicaid Expansion Program; 3. A combination of the first two) or lose all federal funds for both programs. Specifically, the May Revision:

- Withdraws a proposal that would have limited eligibility for the HFP to children in families with incomes up to 200 percent of the poverty line.

- Drops proposals to eliminate the HFP and reduce Medi-Cal eligibility to the minimum required by federal law, both of which would have been triggered if the state did not receive the additional federal funds assumed in the Governor's January budget proposal.

The new federal requirement to maintain existing eligibility standards mirrors provisions included in the ARRA, which limited states' ability to impose eligibility policies more restrictive than those in effect as of July 1, 2008. This limitation also restricts states' ability to increase premiums for enrollees.

- The May Revision, however, maintains and expands the Governor's January proposal to increase premiums for some children in the HFP, potentially in violation of the federal restriction.

Medi-Cal

The May Revision maintains the Governor's January proposals that would eliminate Medi-Cal coverage for Adult Day Health Care services, reduce Medi-Cal payments for family planning services, and reduce services provided to certain immigrants, including legal immigrants who have resided in the US for less than five years. The May Revision also maintains the Governor's January proposal to significantly cut spending in the Medi-Cal Program by limiting services and increasing what Medi-Cal recipients must pay for medical services. Specifically, the Governor proposes to:

- ✓ Eliminate coverage for over-the-counter drugs, establish maximum benefit dollar caps on medical supplies and durable medical equipment, limit visits to physicians or clinics to 10 per year, and limit prescription drugs to six per month, except for life-saving drugs, for state savings of \$90.2 million.
- ✓ Impose copayments for medical services for state savings of \$118.2 million. Medi-Cal recipients would be required to pay \$5 for physician, clinic, dental, and certain pharmacy services. The Governor proposes to charge a copayment of \$3 for lower-cost drugs.
- ✓ Impose a \$50 copayment for emergency room visits for state savings of \$41.5 million.
- ✓ Impose a \$100 per day copayment, up to a maximum of \$200, for hospital stays, resulting in state savings of \$59.1 million.
- ✓ Requires seniors and persons with disabilities to enroll in managed care for state savings of \$137.3 million.
- ✓ Ceases to pay Medicare Part B premiums for recipients whose incomes exceed the Medi-Cal eligibility threshold by less than \$500 per month for savings of \$1.0 million.

Mental Health and Other Related Programs

- ✓ Proposes to redirect \$602 million in Mental Health Realignment funds to achieve a commensurate General Fund savings. The remaining \$435 million in Mental Health Realignment funds would be left for counties to continue providing federally-required mental health services. "Realignment" was proposed by Governor Wilson in 1991 to shift a greater share of the cost of Mental Health programs from the state to the counties.
- ✓ An increase of \$452.3 million to restore General Fund in the EPSDT Program and the Mental Health Managed Care Program. Funding for these programs was proposed to be redirected from the Mental Health Services Fund (MHSA funds), which would have required voter approval. The loss of savings stems from this proposal not being adopted in time for consideration by the voters in the June election.
- ✓ A decrease of \$52 million due to the suspension of the Chapter 1747, Statutes of 1984 (AB 3632) mandates, which provide, among other things, necessary mental health services so that children with disabilities will benefit from their education.

- ✓ Eliminate children vision services in the HFP. Increases premiums from \$24 per child to \$42 per child – an increase of 75 percent – for families with incomes between 200 percent and 250 percent of the federal poverty line effective September 1, 2010. The maximum premium charged to a family would rise from \$72 to \$126.
 - This proposal would result in state savings of \$13.3 million. This proposal is in addition to the Governor’s January proposal to increase premiums for children in families with incomes between 150 percent and 200 percent of the poverty line.
 - As noted above, the new federal health care reform law requires states to maintain existing eligibility standards for both their Medicaid and CHIP programs. This limitation, as applied to the Medicaid Program under ARRA, restricts states’ ability to impose or increase premiums charged to enrollees. The US Centers for Medicare and Medicaid Services is expected to give guidance on whether the same restriction would also apply to state CHIP-funded programs.
- ✓ Increases HFP copayments for emergency room visits from \$15 to \$50 and adds a copayment of \$100 per day with a \$200 maximum for hospital inpatient services for state savings of \$3.2 million.

CALWORKS and Child Care Programs

The May Revision eliminates the CalWORKs Program effective October 1, 2010 for net state savings of \$1.6 billion in 2010-11.

- Eliminating CalWORKs would terminate cash assistance and a range of services for more than 1.4 million Californians, including 1.1 million children.
- In addition, the state would lose three-quarters (\$2.8 billion) of the state’s federal Temporary Assistance for Needy Families (TANF) block grant in 2010-11 and the state’s entire annual \$3.7 billion TANF block grant every year thereafter.
- California also could lose more than \$500 million in additional federal funds to help offset state expenditures for CalWORKs in 2010-11 if Congress extends the Emergency Contingency Fund, which was included in the ARRA and currently expires in September 2010.

May Revision documents outline alternative proposals should the Legislature choose not to eliminate CalWORKs. Specifically, the Administration estimates state savings of \$488 million in 2010-11 from reducing CalWORKs grants by 15.7 percent, eliminating CalWORKs eligibility for recent legal immigrants, and cutting reimbursement rates for CalWORKs child care providers, assuming an October 1, 2010 implementation date. All three of these proposals were included in the Governor’s Proposed 2010-11 Budget released in January.

The May Revision eliminates all state funding for child care assistance for savings of nearly \$1.2 billion in 2010-11. This proposal would end child care assistance for approximately 142,000 children, but would not affect the State Preschool Program or state-funded after-school programs. The Administration states that “approximately \$594 million in federal funds would remain available for approximately 78,000 slots for the neediest of families under a revised program.” The Administration also notes that it will attempt to identify alternative funds that could be used to provide the state match required by the federal Child Care and Development Fund. Alternative funds would be necessary in order to draw down federal funding to support even the reduced level of child care assistance proposed by the Administration.

- ✓ Shifts CalWORKs Stage 2 and 3 child care funding to the “capped” Alternative Payment Program (APP). Children currently served by Stages 2 and 3 would be enrolled in the APP “based on

income eligibility and to the extent of funds availability.” This proposal is consistent with the Governor’s proposal to eliminate the CalWORKs Program effective October 1, 2010.

- ✓ Reduces the income limit for child care assistance from 75 percent of the state median income (SMI) to 60 percent of the SMI in 2010-11. The State Preschool Program income eligibility limit would remain unchanged.
- ✓ Proposes to implement “more aggressive actions to minimize waste and seek collection of overpayments in child care programs.” This proposal would require APP providers “to prevent and correct errors and collect 6 overpayments from families that benefit from the errors.” The Administration does not estimate costs or savings associated with this proposal, which would apply to state-funded child care centers, family child care homes, and other providers.
- ✓ Maintains the Governor’s January budget proposal to reduce reimbursement rate limits in voucher-based child care programs from the 85th percentile to the 75th percentile, based on the 2005 Regional Market Rate survey. This proposal also would reduce the reimbursement rate limits for license-exempt providers from 90 percent to 70 percent of the limits for licensed family child care homes.

Other Human Services Programs (Food Stamps, AIDS Treatment, Prop 10 Funds)

- ✓ Eliminate the California Food Assistance Program (CFAP) effective October 1, 2010 for state savings of \$42.8 million in 2010-11. CFAP provides solely state-funded nutritional benefits to qualified legal immigrants who are ineligible for federal food stamp benefits.
- ✓ A decrease of \$602 million to the Food Stamp and Child Welfare Services programs due to a shift of county mental health realignment funding to county social services programs.
 - This adjustment eliminates the majority of funding for county mental health services and retains only the amount necessary to fund mandated mental health services.
- ✓ An increase of \$13.3 million for the Governor’s Budget proposal to eliminate the California Food Assistance Program (CFAP).
 - The loss of savings is due to delayed implementation, partially offset by the increased CFAP caseload projection. This proposal is now projected to save \$42.8 million General Fund in 2010-11, assuming an October 1, 2010, implementation date.
- ✓ Use county savings that would result from the proposed cuts to the CalWORKs and IHSS programs and the assumed extension of federal ARRA funds to pay for a \$359.5 million increase in counties’ costs for a range of human services programs in 2010-11.

The May Revision does not ask for a ballot measure to approve redistribution of Prop 10 funds, rather it directs First 5 to funnel \$81.4 million into the Healthy Families Program. Additionally, the Revision proposes using \$50 million in First 5 funding to prop up children’s programs under DDS, which has already been approved by First 5 California.

In addition, the May Revision made several changes to the Governor’s proposed January Budget. The changes that were made are detailed below:

- ✓ Divert Proposition 10 revenues to the General Fund each year through 2014-15 to reduce state costs for various programs that serve children. This proposal would have required voter approval. Proposition 10 of 1998 imposed a 50-cent-per-pack tax on cigarettes to support First 5 programs for children from birth to age 5.
- ✓ An increase of \$550 million to reflect that the proposal to shift state and local California Children and Families Act of 1998 (Proposition 10) revenues for five years to offset General Fund costs in various health and human services programs was not adopted in time to be considered by the voters in the June election.

- ✓ An increase of \$118,000 in reimbursements to CDE from the First 5 Commission for the new State Advisory Council on Early Childhood Education and Care (ELAC) pursuant to a Governor's Executive Order. Funding is sufficient for one additional position to augment the current resources available for the Early Learning Quality Improvement System Advisory Committee (ELQIS) created by SB 1629 (Chapter 207, Statutes of 2008). It is anticipated that these resources will enable the state to develop a successful proposal for \$10.6 million in federal funds authorized for the Council in the recent ARRA.
- ✓ Proposition 10/Healthy Families/Department of Developmental Services— A one-time increase of \$25.8 million in funding provided by the state and local First 5 California Children and Families Commission to help fund the costs of children up to five years old enrolled in Healthy Families from households with incomes from 200 to 250 percent of poverty. The overall contributions requested from these commissions in 2010-11 are \$81.4 million for children receiving insurance through the Healthy Families Program and \$50 million for children receiving services through the Department of Developmental Services.
- ✓ Access to Infants and Mothers Program — The Managed Risk Medical Insurance Board will consider options to increase cost sharing from 1.5 to 2.0 percent (as authorized in law for the continuously appropriated Perinatal Insurance Fund) to meet anticipated caseload demand.
- ✓ A decrease of \$32.7 million in the AIDS Drug Assistance Program (ADAP) due to: (1) a court ruling requiring a reduction in the average wholesale price of brand drugs; (2) the elimination of ADAP eligibility for county jail inmates; and, (3) an additional seven months of data used in the estimating process, which improved the precision of the estimate in comparison to the Governor's Budget.
- ✓ An increase of \$33.6 million for the Governor's Budget proposal to eliminate the Cash Assistance Program for Immigrants (CAPI). The loss of savings is due to delayed implementation and the decreased CAPI caseload projection. This proposal is now projected to save \$73.6 million General Fund in 2010-11, assuming an October 1, 2010, implementation date.

School Readiness and Education

- ✓ The May Revision would provide \$49.9 billion in 2009-10 and \$48.4 billion in 2010-11 for K-14 programs covered by the Proposition 98 guarantee, a reduction of \$1.3 billion in 2009-10 and \$4.2 billion 2010-11 compared to the minimum level required by bills signed by the Governor as part of the July 2009 budget agreement. The lower proposed funding level reflects the Governor's assumption that provisions enacted as part of the July 2009 budget agreement do not apply to the 2009-10 or 2010-11 budgets.
- ✓ Increases funding for school district and COE revenue limits by \$31.8 million in 2009-10 and \$71.7 million in 2010-11 as a result of increased unemployment insurance and CalPERS costs.
- ✓ Reduces funding by \$78.5 million to reflect anticipated savings in special education, Economic Impact Aid, Child Nutrition, and Charter School Categorical Block Grant programs.
- ✓ Reduces 2010-11 funding for COE administration by \$28.2 million, instead of \$45 million as proposed in the January budget. The May Revision also withdraws the January budget proposal to require COEs to consolidate services and functions.
- ✓ Reduces one-time funding for new school categorical programs by \$9 million in 2009-10

In-Home Supportive Services (IHSS) Program

The May Revision proposes to "develop specific IHSS cost-containment measures in time for legislative enactment by July 1" to achieve state savings of \$637.1 million in 2010-11, with annual savings increasing to an estimated \$750 million beginning in 2011-12. The CBP estimates that the 2010-11 reduction is approximately 42 percent of the state's projected share of total IHSS Program costs of \$1.5

billion in 2010-11. The Administration states that this proposal would be developed “in consultation with stakeholders” and would be “in lieu of” the Governor’s January proposals to reduce the state’s share of IHSS workers’ wages and benefits to \$8.60 per hour and eliminate all services for IHSS recipients with “functional index” scores below 4.0. The Administration notes that it continues to challenge federal court rulings that have prevented California from implementing reductions to IHSS included in the February and July 2009 budget agreements.