



Understanding California's Budget: Implications for Health Care

After long and intense negotiations, the California Legislature passed a budget package on February 19, 2009 which the Governor signed the next day. The budget package made up of over 30 bills is primarily based on a framework developed by Governor Schwarzenegger and legislative leaders. It amends the 2008-09 budget as well as enacting the 2009-2010 budget.

With the state facing a **\$41 billion deficit** through June 2010, the current budget fills the gap through a series of spending cuts, tax increases, borrowing, and federal stimulus funds. The package also included several tax, budget and policy changes not related to closing the deficit. More specifically, the budget includes:

- **\$14.9 billion in spending reductions** (in addition to the \$19 billion in cuts over the past three years);
- **\$12.5 billion in new and increased, but temporary, taxes** (including a one cent increase in sales tax, adding a surcharge on state income taxes while reducing the allowed dependent tax credit, an increase in the vehicle-license fee);
- **\$7.8 billion in federal stimulus revenue**; and
- **\$5.4 billion in borrowed funds**, including from the state lottery.

Further Spending Reductions

In addition to the \$19 billion in spending cuts over the past three years, the current budget cuts another \$15 billion. Along with other areas, health care is also subject to significant cuts in the current budget, including:

- \$24.7 million in General Fund savings (and \$24.7 million in lost federal funds) by **suspending the 2009 Medi-Cal Administration cost of doing business increase** for counties;
- \$54.2 million in lost federal funds by **reducing payment rates to public hospitals** by 10 percent; and
- \$129.4 million in General Fund savings (and \$129.4 million in lost federal funds) by **eliminating dental and other Medi-Cal benefits** for about 3 million adults, including audiology and speech therapy, acupuncture, chiropractic services, optometry, podiatry, and psychological services, and incontinence creams and washes.

The Role of Federal Economic Recovery Funds: The Potential to "Trigger-Off" Some Cuts & Taxes

Although the budget contains a number of spending cuts, it also contains a mechanism to restore some of those cuts using federal funds authorized by the American Recovery and Reinvestment Act of 2009 (ARRA) signed by President Obama on February 17, 2009. The mechanism requires that in order to restore cuts, the state must receive at least \$10 billion in federal funds by June 30, 2010 to offset General Fund costs. In other words, \$10 billion of federal funds are needed to "trigger off" some of the cuts.

The precise amount of federal stimulus funds for California is still being determined, however, as of Friday, February 22, the Director of Finance made a preliminary determination that California would receive only \$7.8 billion by June 30, 2010 and thus the cuts would be made. Under the law signed on the same day, the Director of Finance and the Treasurer must determine by April 1, 2009 whether federal funds meet the \$10 billion threshold to trigger off the spending cuts. If there is sufficient federal funding, Medi-Cal benefits would not be eliminated and public hospital payments would not be reduced. If there is insufficient federal funding, those cuts and cuts to other services would be implemented July 1, 2009.



The Role of California Voters: A May 19th Election to Decide Additional Cuts, A Spending Cap to Force Future Cuts

In order to piece together a budget and secure the legislative votes to pass it, the current budget contains eight provisions that will be subject to vote on a May 19, 2009 ballot. Of the three provisions that will likely have the greatest impact on health care, two shift funding away from voter-approved health-related services and another imposes an overall state spending cap that will force cuts in the future if enacted.

- **Proposition 1A** would pass a Constitutional amendment to institute a spending cap, to limit the amount of revenue that can be appropriated for the General Fund. It also would extend the temporary taxes to last from two to five years. Under the spending cap, any revenues above a forecasted amount must be put in a "Budget Stabilization Fund," and can only be accessed under certain circumstances. In other words, the spending cap locks up money making the state less able to fund education, health care, and other core state services.
- **Proposition 1D** would amend Proposition 10, which was passed in 1998 and increased the tobacco tax revenues to raise funds exclusively for services for children up to five years old. This budget, subject to voter approval, would redirect Proposition 10 funds of up to \$340 million in the first year and \$268 annually for the following five years to be appropriated by the Legislature. As a result, local First Five Commissions would have to cut the programs they fund, such as county "Healthy Kids" coverage initiatives.
- **Proposition 1E** would amend Proposition 63, which in 2004 raised the income tax for the upper tax bracket to earmark funding specifically for mental health services. This budget, subject to voter approval, would redirect Proposition 63 funds of up to \$226.7 million in the first year and \$234 annually for the following year from Proposition 63 mental health services to backfill the existing Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program.

The proposed spending cap would have profound impact on health care far into the future. It would limit California's ability to invest in health, education and other vital services, and in fact is projected to force steep cuts every year into the future.

For health care, the impact of an artificial spending cap is to lock the state in to the current broken, resource-starved health system that we all rely on, preventing any action to address the needs of the over six million uninsured Californians, or to improve our system with the lowest per-patient Medicaid spending in the nation. As the limit does not take into account medical inflation or the costs of an aging population, health care would be particularly vulnerable under the cap. The cap would thus force cuts into existing programs and services, and prevent ever addressing unmet needs.

Additional Budget Resources

- Health Access weblog (updated daily): <http://health-access.org/blogger.html>
- "Legislature Passes Budget Plan" from the California Budget Project (2/19/09): http://www.cbp.org/pdfs/2009/090219_Leg_Passes_Budget.pdf
- Assembly Budget Committee Updated Floor Report (2/19/09): <http://www.assembly.ca.gov/acs/newcomframeset.asp?committee=4>
- Senate Budget and Fiscal Review Committee Quick Summary (2/19/09): http://www.senate.ca.gov/ftp/SEN/COMMITTEE/STANDING/BFR/_home/RevisedFinal2009BudgetSummary.pdf