



May Revise

Fiscal Year 2008-2009

In this Summary:

- ♦ Overview:
 - Review of the Major Changes
 - Total Budget
 - Health & Human Services Spending
 - Health Spending, by department
- ♦ Medi-Cal
- ♦ Healthy Families
- ♦ Other Health Programs
- ♦ Department of Public Health
- ♦ Social Services
- ♦ Department of Mental Health
- ♦ Other Budget Programs

REVIEW OF THE GOVERNOR'S PROPOSED BUDGET

Under a Wave of Debt – Up from \$14.5 to \$17.2 Billion Reductions in Health Care Shoulder the State's Debt

Summer Turned into Fall?

Since the Governor's January version of the state's proposed budget, it has become painfully clear that the state is in a place it has never been before. The Governor's \$14.5 billion deficit estimate in January has ballooned. Recent statements by the administration indicated that the budget deficit could come in as high as \$20 billion, though today's May Revise points to a \$17.2 billion deficit. No less, the deficit may have a near-immediate impact, with predictions that the state could run out of a sufficient cash flow over the summer, likely sometime in August or possibly earlier. In past years where the state has faced a deficit, agreement within the Legislature over the state's detailed spending has stalled, with negotiations often dominating the Legislature's attention during the summer months. With the state projected to lack cash flow beyond August, the question remains whether this will be enough of an incentive for the Legislature to push forward an agreement, or whether we will indeed be facing one of the state's longest summers.

California's Lopsided Budget Picture

Worse still, attention on generating revenue of any source has waned over the past several months, indicating that the focus will continue to rest on budget reductions, although most recognize that with current limitations of the budget's structure, there is little room to address a deficit of this magnitude without severely affecting some of California's most vulnerable. As a direct result, the Governor's May Revise focuses heavily on reductions in Medi-Cal, which shoulders much of the state's reductions. For many of our health programs, such as Medi-Cal and Healthy Families, which rely on the state's share in order to receive a federal dollar match, the proposed budget reductions given today only represent half of the total reduction that will be experienced in those programs. Here is a summary of the Governor's May Revise budget. A full, in-depth analysis will be released in the coming weeks.

Quick Review: What are the Major Reductions in Health

Today's May Revise reflects some of the most significant reductions made to healthcare in recent years, even in past years with deficits. Here is a review of the major reductions:

| | |
|--|------------------------------------|
| ♦ Medi-Cal: Monthly Eligibility Requirement Would require otherwise eligible undocumented immigrants to provide continued proof of eligibility, on a month-to-month basis. | decrease \$42 million |
| ♦ Medi-Cal: Income Eligibility (Section 1931 b program) Reduces eligibility criteria by rolling back the maximum amount of annual income an eligible family or individual may have to 61% of the federal poverty level, or approximately \$12,000 a year for a family of four. This is lower than the previous threshold of \$28,000 for a family of four. | decrease \$ 31.2 million |
| ♦ Delay in Pilot, Medi-Cal Bridge Program Delays the implementation of programs that would ease administrative burdens and streamlines enrollment by allowing eligible beneficiaries to self-certify their annual income. | decrease \$ 13 million |
| ♦ Limiting Access to Medi-Cal Limits benefits for newly qualified immigrants and other qualified immigrants to the same level of service currently provided for undocumented immigrants. | decrease \$ 86.7 million |



Total State Budget and Health & Human Services Budget

The Health & Human Services portion of the state’s expenditures continues to be the second to largest spending category for the state, despite significant proposed reductions, particularly in the Medi-Cal program. This is not particularly surprising as Medi-Cal continues to be the leading source of health and health care spending. Reductions in health and human services programs are in addition to various program reductions that were released as part of the Governor’s January budget proposal. Today’s May Revision represents \$627 million more in program reductions under the health and human services spending within the state’s total \$101 billion dollar budget.

Total State Budget

| | January Proposal | May Revise | Change |
|---------------------------------|------------------|------------------|------------|
| TOTAL Expenditures | \$ 141 billion | \$ 144.3 billion | + \$ 3.3 b |
| Total General Fund Expenditures | \$ 101 billion | \$ 101.8 billion | + \$ 893 m |

Health & Human Services Spending

| | January Proposal | May Revise | Change |
|---------------------------------|------------------|-----------------|------------|
| TOTAL HHS Spending | \$ 40.2 billion | \$ 38.1 billion | - \$ 2.1 b |
| Total General Fund Expenditures | \$ 32 billion | \$ 29.8 billion | - \$ 2.2 b |

Health Spending – by Department

Department of Health Care Services (DHCS)

| | January Proposal | May Revise | Change |
|--------------------------------|------------------|-----------------|----------|
| TOTAL DHCS Expenditures | \$ 39.3 billion | \$ 38.3 billion | - \$ 1 b |

The state’s Department of Health Care Services is the department primarily responsible for the state’s provision of medical services, largely through the state’s Medicaid program known as Medi-Cal. Medi-Cal funds dominate much of DHCS’ overall spending where \$37.2 billion of DHCS’ \$38.3 budget are funds related to Medi-Cal.

Managed Risk Medical Board (MRMIB)

| | January Proposal | May Revise | Change |
|---------------------------------|------------------|-----------------|------------|
| TOTAL MRMIB Expenditures | \$ 1.3 billion | \$ 1.27 billion | - \$ 123 m |

Similar to DHCS, the second most significant public health program utilizes national SCHIP (State Child Health Insurance Program) funds that are recognized in California as the Healthy Families Program (HFP) administered by MRMIB. Spending for HFP represents \$1.1 billion of MRMIB’s May Revise budget projection of \$1.27 billion.

Department of Public Health (DPH)

| | January Proposal | May Revise | Change |
|-------------------------------|------------------|-----------------|------------|
| TOTAL DPH Expenditures | \$ 3.1 billion | \$ 3.25 billion | + \$ 123 m |

Unlike departments listed above, the Department of Public Health does not focus on coverage for direct provision of medical services but houses all of the state’s efforts around prevention. As a result, most of the funds directed for DPH are not eligible for a federal dollar match.

Department of Social Services (DSS)

| | January Proposal | May Revise | Change |
|-------------------------------|------------------|-----------------|----------|
| TOTAL DSS Expenditures | \$ 20.4 billion | \$ 19.4 billion | - \$ 1 b |

Like all of the departments listed above, the Department of Social Services (DSS) is also housed within the state’s Health and Human Services Agency which oversees various departments and offices related to health. DSS oversees the majority of the state’s social services programs including CalWORKS and SSI/SSP. (See page 5 and 6 for more information)

Medi-Cal

Medi-Cal, California's Medicaid program, currently provides free health insurance, including regular doctor's visits, hospitalization, dental and vision care, and prescription drugs for approximately 17 percent of all Californians, or over 6 million beneficiaries. Of this, half of all Medi-Cal enrollees are Latino. Medi-Cal serves the necessary and noble function of providing high-quality healthcare to California's low-income and medically-vulnerable populations and is incredibly important to Latinos, who are 15 percent less likely to receive health insurance from their employers. As such, fully funding Medi-Cal benefits working poor families.

For the current fiscal year 2007-2008, the Governor's May Revise contains \$36.6 billion for Medi-Cal, \$14.1 billion from the General Fund, to account for an overall decrease of \$353.2 million from the Governor's Budget. General Fund expenditures for Medi-Cal have increased by \$427.7 million from the 2006-2007 level. The May Revise's 2008-2009 budget includes total Medi-Cal expenditures of \$37.2 billion with \$315.7 million from the General Fund.

Overall, the Governor's proposed budget and May Revise represents an erosion of benefits in the Medi-Cal program, particularly to immigrant populations. It promotes cost and program-shifting, leading to increased costs on administration as opposed to the provision of healthcare services, and supports significant shifts to different Medi-Cal programs:

Lowering of Allowable Income for Low-Income Adults in Families

A decrease of \$31.2 million by lowering the allowable income level for persons applying to Medi-Cal Section 1931(b), which provides Medi-Cal to low-income eligible families. Income limits will be lowered from 100% of Federal Poverty Guidelines (FPL) to 61% FPL. Currently, parents in low-income families are able to qualify for full-scope Medi-Cal if their incomes are at or below 100% FPL, but this provision would mean a family of four must earn less than \$12,000 a year to qualify. Children with incomes up to 200% FPL will continue to be able to receive Medi-Cal, depending on their age.

Ongoing Eligibility Determinations in Emergency Medi-Cal

Forty-two million dollars (\$42 million) decrease by requiring undocumented immigrant recipients of Emergency Medi-Cal to recertify themselves on a monthly basis. This will likely mean that Emergency Medi-Cal beneficiaries will be exiting and re-entering the program with additional frequency, likely resulting in increasing administrative costs in lieu of spending funds on direct services or coverage. This provision also includes that children of the same status will be required to re-certify monthly. Women receiving pregnancy-only services will not be included.

Limitation of Access to Services for Legal Immigrants

Eighty-seven million dollars (\$86.7 million) decrease by limiting benefits for legal immigrants (Person Residing Under Color of Law/PRUCOL designation) to the level provided for undocumented immigrants. Currently, Legal Permanent Residents are eligible for full-scope Medi-Cal services. This budget proposal would delete those provisions. Children will continue to receive full-scope Medi-Cal.

Delay Implementation of Enrollment Streamlining from the Women, Infants and Children Program

Thirteen million dollar decrease (\$13 million) will delay the implementation of a two-county pilot project to streamline the application process of uninsured in the WIC program into Medi-Cal. This enrollment streamlining would have also allowed Medi-Cal beneficiaries to self-certify their income, representing yet another ongoing delay of this pilot project.

Medi-Cal Transfer to Genetically Handicapped Persons Program and California Children's Services

A \$19.4 million transfer from Medi-Cal to the GHPP and CCS programs. The administration indicates increased costs for treatment in the two programs as the need to shift funds away from Medi-Cal.

Current Year Budget Balancing Reduction Set-Asides

Increase of \$47.6 million to maintain certain Budget Balancing Reductions that have not been adopted by the State Legislature, including elimination of optional benefits for adults, and quarterly status reporting which would increase the frequency for beneficiaries to prove their ongoing eligibility. Costs savings for this proposed item are only realized when beneficiaries do not continue with coverage. These items are yet to be voted on by the Legislative Budget Committees and will likely be debated on in the coming weeks.

Previous Budget Balancing Reductions from Governor's January Proposal

Increase of \$173.1 million to the May Revision while the California Legislature debates certain reductions proposed by the Governor in January. These include optional benefits for adults, such as podiatry, dental care, and optometry. It also includes reductions for Medi-Cal provider rate reimbursements, which is currently facing a pending lawsuit. Also, Quarterly Status Reporting, which would require adult and child Medi-Cal beneficiaries to re-certify their income and assets every three months. These are similar to items mentioned above.

Medi-Cal Managed Care Rate Adjustment

Increase of \$169.8 million to Medi-Cal managed care plans. These rate changes were developed by reviewing Medi-Cal use data and is specific to different county plans. This is the minimum amount needed to ensure federal matching funds for Medi-Cal Managed Care.

Medi-Cal Non-Contracted Hospital Rates

Eleven million dollars (\$11.3 million) decrease for rates paid to non-Medi-Cal contracted hospitals. The administration maintains this measure will incentivize non-Medi-Cal hospitals to contract with Medi-Cal.

Healthy Families Program (HFP)

The Healthy Families Program is a subsidized health coverage program for children up to age 19 in low income families between 100%-250% Federal Poverty Level (FPL). For a family of four, the income requirements equivalent is roughly \$21,000-\$52,000. Benefits offered through HFP include medical, dental, and vision services. However, in the January Proposed Budget, the Governor proposed to place a cap onto dental benefits for children.

In the January proposal and the Budget Special Session, the following cuts were proposed: 5 percent rate reduction to the plans; increase co-payments for non-preventive services; increase subscriber premiums; and place a cap on dental benefits. None of these reductions were adopted during the Budget Special Session. However, according to the May Revise the enactment of these items will be reflected in the State Budget projections. As the Governor released his May Revision, rumors were that cuts to services would be deeper than proposed in January. While this assertion is true for most of health and human services, this assertion also holds true for HFP. The following augmentations to HFP are proposed in the May Revise.

◆ Overall increase of \$5.6 million for Current Year

These increases would largely be due to additional reductions in plan rates paid per enrollee for medical services.

◆ \$4.8 million BBR augmentation

HFP Budget Balancing Reductions (BBRs) were delayed during the Budget Special Session. The May Revise would enact the BBRs from the Budget Special Session, thereby incurring an increase of \$4.8 million. These reductions include: 5% rate reduction to the plans, increase co-payments for non-preventive services; increase subscriber premiums; and place a cap on dental benefits.

◆ Delay SB 437

The May Revise indicates the proposal to delay implementation of SB 437. According to the Revise, this will result in a savings of \$1.9 Million.

◆ HFP Mental Health: \$6.4 million augmentation

The May Revise includes a decrease of \$6.4 million (\$171,000 General Fund, and \$6.3 million in reimbursements) to reflect projected lower HFP claims.

Implementation of SB 437

SB 437 provides two main functions: it streamlines enrollment into the Medi-Cal and HFP programs and establishes a pilot program which allows parents to self-certify income and assets at enrollment. This program accelerates enrollment into the HFP, thus making it a swifter process for families to gain access to vital medical services. Given the dire state of the state economy, there are concerns that funding for SB 437 may once again be postponed from this fiscal year as a way to cut costs to the state. The May Revise shows that the Governor did in fact propose that implementation of SB 437 once again be delayed for another year.

Other Health Programs

Access for Infants and Mothers (AIM)

Designed to provide low cost health insurance coverage to uninsured pregnant women with family incomes between 200 and 300% FPL (Federal Poverty Level), AIM is set to see an overall expenditure decrease of \$4.4 million for the current year (equivalent to a 3.3% decrease) and an overall decrease of overall expenditure decrease of \$7.2 million for the 2008-09 budget (equivalent to a 4.7% decrease) from the level anticipated in the Governor's Budget. Both decreases are largely due to a decrease in expected enrollment. Average monthly enrollment in the AIM program is expected to be 1,054 women in the current year, 8.7 percent lower than originally estimated, and 1,159 women in the 2008-09 budget year, a decrease of 12.2 percent from the January proposal.

Major Risk Medical Insurance Program (MRMIP)

MRMIP provides health care coverage for particularly high-risk individuals and those experiencing difficulty in securing coverage through the traditional health insurance market. The May Revise sees no changes from the Governor's Budget. The Governor's Budget includes \$36 million for MRMIP, which reflects a \$4 million reduction from the \$40 million historical level, due to a continuing decline in Proposition 99 revenues. Program enrollment is "capped" at the level of annual funding provided. The program currently provides benefits to a total of 8,043 people, with 65 people on the waiting list as of December 1, 2007.

Over the last year, MRMIP was intentionally decreasing enrollment through Chapter 794, Statutes of 2002, which required disenrollment for MRMIP participants who had been in the program for 36 months. This statute sunsets on December 31, 2007. Therefore, MRMIB is no longer disenrolling members from MRMIP.

Department of Social Services

CalWORKs

CalWORKs is the state's cash-aid program, recognized as TANF (Temporary Aid for Needy Families) nationwide and provides assistance to children and families. The 2007-08 average monthly CalWORKs caseload of 460,119 represents an increase of 0.1 percent from 2006-07, and an increase of 1.9 percent from the Governor's Budget estimate. Absent the program changes described below, the average monthly caseload in this program is estimated to be 459,744 in 2008-09, a 0.1 percent decrease over the 2007-08 projection.

However, the Governor's May Revise continues to propose significant changes that will negatively impact children. The proposed changes are estimated to reduce the 2008-09 caseload projection to 386,871 families, a 16 percent decrease from the 2007-08 estimate. Key components include:

- Imposing graduated full family sanction. Grants will be reduced by 50% for a full family when an adult has been sanctioned for an accumulated total of six months. Adults who have been sanctioned for an accumulated year will receive no grants for children or themselves resulting in a full family sanction;
- Providing a Work Incentive Nutritional Supplement of \$40 per month to families who are not currently receiving CalWORKs benefits but are meeting federal work requirements;
- Providing cash aid for families receiving child-only benefits that are consistent with other CalWORKs families. Under this proposal, aid to families receiving child-only benefits will be limited to 60 months. These families include parents or caretakers who are undocumented non-citizens, drug felons, or fleeing felons;
- Modifying safety net benefits for families by continuing safety net benefits for families beyond their 60-month time limit if they meet federal work participation requirements.

Additionally, the May Revise proposes to following cuts:

- Eliminate 2008-09 Cost of Living Adjustment (\$131M)
- 5% grant reduction (\$108.2M)
- Self-Sufficiency Reviews (\$59.7M)
- Eliminate County Pay-for-Performance Incentive (\$40M)

- Use Unspent Performance and Fraud Incentives funding to offset General Fund (\$20.6M)
- Implement the Regional Market Rate for Child Care in January 2009 and limit reimbursement rates to the 75th Percentile (\$19.4M)
- Eliminate the TANF Reserve (\$13M)

Supplemental Security Income/State Supplementary Payment (SSI/SSP)

SSI is the federal program providing monthly aid to eligible seniors and persons with disabilities who meet the eligibility requirements. SSP is the state's supplement to the SSI cash grant. Total General Fund expenditures for SSI/SSP are \$3.6 billion in 2007-08, representing an increase of \$4.6 million compared to the Governor's Budget. SSI/SSP General Fund expenditures for 2008-09 are \$3.5 billion, a decrease of \$213.4 million from the Governor's Budget. Caseload for the SSI/SSP program is projected at 1,247,575 recipients in 2007-08 and 1,274,000 recipients in 2008-09, a year-to-year caseload growth of 2.1 percent. The revised budget will retain federal COLAs, rather than passing it on to recipients.

California Assistance Program for Immigrants (CAPI)

CAPI provides benefits to aged, blind, and disabled legal immigrants; CAPI faces elimination in the May Revise. CAPI was projected to have an average monthly caseload of 10,300 individuals in 2008-09 for a total of \$111.2 million General Fund reduction in 2008-09.

In-Home Supportive Services

IHSS program provides services to enable eligible persons to remain safely in their own homes as an alternative to out-of-home care. Eligible persons are aged, blind, or disabled persons who receive public assistance or have low incomes. Total General Fund expenditures for IHSS are \$1.7 billion in 2007-08 and \$1.5 billion in 2008-09, including an increase of \$36.5 million in 2007-08 and a decrease of \$110.7 million in 2008-09 compared to the Governor's Budget. Caseload is projected to be 396,612 recipients in 2007-08 and 415,589 in 2008-09. Caseload estimates in 2007-08 and 2008-09 are slightly higher than projected in the Governor's Budget. The May Revision includes alternative reduction proposals to replace the 18 percent reduction in domestic and related service hours proposed in the Governor's Budget by no longer paying Medi-Cal share of cost or provide domestic and related services for IHSS recipients with average functional index scores above 4.

The May Revision also limits state participation in the wages of IHSS workers to the state minimum wage plus \$0.60 per hour for benefits. This would result in savings of \$186.6 million General Fund in 2008-09.

Department of Public Health (DPH)

Newly created in July 1, 2007 through passage of SB 162 (Ortiz) in 2006, the California Department of Public Health has assumed some of the health programs previously operated and overseen by the Department of Health Services (now the Department of Health Care Services). DPH's function will focus on preventive services and will be responsible for handling the state's public health disaster and emergency preparedness programs. The programs are listed as follows:

◆ AIDS Drug Assistance Program

The May Revise includes \$325.3 million to fund the AIDS Drug Assistance Program (ADAP), which is 16.2 percent above the \$280 million identified in the Governor's Budget. ADAP will serve nearly 34,256 clients in 2008-09, approximately 1,400 above the revised current year caseload estimates.

◆ Proposition 99: Cigarette and Tobacco Products Surtax

The May Revise projects decreased Proposition 99 revenue of \$7 million in 2007-08 and \$15 million in 2008-09, due to decrease cigarette consumption. Due to decrease in revenue, the May Revise reflects decreases in funding for the California Healthcare for Indigents Program and the Rural Health Services program totaling \$3 million in 2007-08 and \$9.8 million in 2008-09. The reductions will not affect funding for Managed Risk Medical Insurance Program and the Access for Infants and Mothers program.

Department of Mental Health

Community Mental Health Services

The Governor's May Revise includes a current fiscal year (2007-2008) net increase of \$110.5 million, with a decrease of \$54,000 from the General Fund, but a \$110.6 million increase in reimbursement. The May Revise also includes in it the 2008-2009 budget year proposal for mental health, which includes a net increase of \$24.7 million for community mental health services. All mental health programs are administered through a managed care model, which can be publicly or privately operated and is contracted by the county.

Current Budget Year, 2007-2008:

Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT)

\$113.1 million increase in reimbursements due to a change from cash-based accounting to accrual-based accounting for the 2007-2008 budget.

Healthy Families Program

\$2.6 million decrease to Healthy Families mental health providers due to a decrease in forecasted claims in the 2007-2008 budget year.

Budget Year 2008-2009:

Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT)

\$31.1 million net increase for the 2008-2009 budget year for this program, which includes:

- ◆ \$57.2 million decrease due to lower-than projected EPSDT claims
- ◆ \$13.4 million increase in reimbursements due to change in cash-based accounting to accrual-based accounting
- ◆ \$17.2 million placeholder increase as the Legislature debates the Governor's January Budget proposal cuts
- ◆ \$57.7 million increase due to the 2005-2006 cost settlement

Healthy Families Program

\$6.4 million decrease to mental health services provided through the Healthy Families program due to lower-than-projected Healthy Families Claims.

Other Budget Programs

California Student Aid Commission

The May Revise sees no change from the Governor's Budget proposal to eliminate new awards for the Cal Grant Competitive program; this lack of change reflects a reduction of \$57.4 million. The May Revision also proposes that approximately 30% of projected Cal Grant costs be shifted from General Fund to Temporary Assistance for Needy Families (TANF) reimbursements from the Department of Social Services to help address the state's TANF Maintenance of Effort (MOE) shortfall. Eighty million savings associated with the elimination of the \$80 million Cal Grant workload cost placeholder from the Governor's Budget that was included in the event UC and CSU increased fees beyond the level anticipated for the workload budget as UC undergraduate fees are expected to increase by 7.4% and CSU undergraduate student fees are expected to increase by 10 percent.

Program in Medical Education (PRIME)

Launched in 2004, Program in Medical Education for the Latino Community (PRIME-LC) focuses on combining medical-school training with Latino health issues. UC approved an expansion of this program to all the other UC medical schools, which include UC Davis, UC Los Angeles, UC San Diego, and UC San Francisco. The May Revise sees no change from the Governor's Budget, which includes a \$975,000 increase for the next cohort of 65 students for the PRIME Program, which targets prospective medical doctors for underserved populations.

A full, in-depth Budget Analysis of today's May Revise will be following in the coming weeks. Please visit www.lchc.org for more information.

For additional copies of this report,
please contact us at:

Latino Coalition for a Healthy California (LCHC)
1225 Eighth Street, Suite #550
Sacramento CA 95814
www.lchc.org

Ph: (916) 448-3234

Fax: (916) 448-3248

Staff:

Al Hernandez Santana
Executive Director

Veronica Montoya
Policy Director

Vanessa Cajina
Regional Networks Coordinator

Linda Nguy
Policy Associate

Daniela Reynoso-Miranda
Policy Analyst,
Latino Health Alliance

Judy Melson
Office Manager

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