



# HIGHLIGHTS OF GOVERNOR'S PROPOSED MAY REVISION 2010-11 STATE BUDGET

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**OVERVIEW**

The Governor has released his May Revision update to his budget plan which reflects the latest estimate of California's budget deficit. The Governor's poorly conceived budget plan to fix this deficit with cruel and economically destructive job-killing cuts overshadows the positive economic news contained in the report.

**Overall Deficit Shrinks**

The May Revision recasts the budget problem at \$19.1 billion, a \$17.9 billion two-year budget deficit, coupled with a \$1.2 billion reserve. These figures reflect actions taken by the Legislature, federal funds, and the gradual improvement in the economy, which is slowly emerging from the recession.

The reduction in the deficit is due to a number of factors illustrated below (\$ in billions):

<b><i>Budget Gap in January</i></b>	<b><i>-\$19.9</i></b>
Special Session Approved Solutions	\$1.4
Achieved Federal Funds	\$0.7
Revenue Decline	-\$0.6
Cost Increases	\$.05
Increase Budget Reserve	-\$0.2
<b>New Budget Gap</b>	<b>-\$19.1</b>

The May Revision reflects a slower rate of revenue growth for the 2009-10 than was assumed in the Governor's Budget, but expects better than expected revenue growth for the 2010-11 budget year. These figures reflect an overall brighter economic outlook for next year, based on the latest economic data.

**Governor's Plan**

The Governor bridges the budget gap with a combination of cuts, federal funds, alternative funding, and fund shifts.

<b><i>Budget Gap in January</i></b>	<b><i>January Budget</i></b>	<b><i>May Revision</i></b>	<b><i>Total</i></b>	<b><i>Percentage</i></b>
Expenditure Reductions	5,844.5	\$6,523.4	\$12,367.9	64.6 %
Federal Funds	1,967.9	1,414.1	3,382.0	17.7%
Alternative Funding	1,025.9	252.4	1,278.3	6.7%
Fund Shifts and Other Revenues	477.1	1636.5	2,113.6	11.0%
<b>Total</b>	<b>\$9,315.4</b>	<b>\$9,826.4</b>	<b>\$19,141.8</b>	<b>100%</b>

*Highlights of the Governor's Plan:*

**Big Program Cuts and Eliminations Including:**

- Major cuts to K-12 Education funding: While the May Revision claims "full funding of education," it continues to assume the manipulation of the educational funding requirements to allow reductions to be made to school funding. Per-pupil is reduced in 2010-11 to \$7,088 per pupil, which is only slightly higher than the 2004 level of school funding. If the Governor's proposals were adopted, per-pupil spending would be almost \$1,100 below the 2007-08 level of \$8,175 per pupil.
- Elimination of CalWORKs and General Fund support for child care and development programs, excluding pre-school: These two proposals would save \$2.3 billion in General Fund savings, but would result in a loss of \$3.7 billion in federal funds. It is estimated that the lost nearly \$6 billion annual to California's economy would result in the loss of over 200,000 jobs and the closure of thousands of small businesses in addition to direct impact of the loss of income for the 1.2 million Californians that currently receive CalWORKs.
- Local County Mental Health Realignment: Shifts tax funds provided to counties to pay for mental health costs borne by the county to fund State costs in food stamps and child welfare programs. This shift results in \$602 million in savings to the State, but leaves county mental health programs with only 40 percent of their existing funding.
- "PLP Day": The Governor has proposed that all state employees have one unpaid floating furlough day per month, savings \$446 million. This would be on top of the January budget proposals to reduce compensation and increase employee health costs.
- Health Care Cost Containment: The May Revision replaces the \$750 million cost containment placeholder proposed in January with a more tangible list of policy changes that is intended to save \$523 million. These will include hard caps on optional benefits rather than the elimination of these services.
- IHSS "Stakeholder" Savings: The May Revision assumes \$750 million from a 30 day stakeholder process in which the Administration would work with advocates and the Legislature to develop options to achieve savings. This would mirror a similar stakeholder process that was undertaken in the Development Services area last year. However, the timeline for this process would be shorter and the expected level of savings is nearly 40 percent of the total program's budget.

**Some Proposals Pulled Back**

- **Healthy Families Elimination:** This proposal cannot be implemented due to federal health care reform and has been withdrawn in the May Revision.
- **Funding Reductions to UC and CSU:** Was included in federal trigger cuts, no longer in proposal.
- **Cal Grants Reductions:** No reduction proposal in May Revision, was included in January trigger cut list.
- **Unallocated cuts to Courts:** Not included in May Revision, was included in January trigger cut list.

**Major Public Safety Policy Proposals**

To achieve \$243.8 million in savings in 2010-11, shifts certain non-violent, non-sex offender, non serious offenders with sentences of three years or less to serve from prison to local jails. The state will provide counties with \$11,500 per offender to be used for programs and services and provide a continuous appropriation of \$502.9 million annually, beginning in 2011-12, to support various local law enforcement programs that are currently supported by a portion of the temporary vehicle license fee increase. In addition, \$4.6 million in savings in 2010-11 results from shifting supervision of juvenile parolees to county probation. The state will provide locals with \$15,000 per juvenile parolee.

**Federal Funds Assumptions More Realistic**

The \$3.4 billion in federal revenue assumed in the May Revision conservatively reflects the current discussions in Congress on the continuation of certain federal FMAP and ARRA provisions and discussion of other revenue options. The Governor assumed almost \$7 billion of federal funding in his January budget.

**\$2.4 billion in Corporation Tax Cuts Included**

The Governor's May Revision reduces corporate taxes by over \$2.4 billion by allowing new corporate tax reductions including the Net Operating Loss Carry Back provisions, the unitary credit sharing provision, and the elective single sales factor to all go into effect. In January the Governor proposed to delay these new tax cuts by one year, but the May Revision has backed off that proposal. These new tax reductions are on top of the expiration of \$9.6 billion in temporary taxes that will take effect throughout 2010-11.

## **HEALTH SERVICES**

*Key Proposals:*

**Department of Health Care Services**

- Restores Medi-Cal optometry services for adults that were eliminated in 2009, in order to comply with federal law, increasing Medi-Cal by \$1.3 million. This had been utilized by 731,906 Medi-Cal beneficiaries.
- Proposes a 3.9 percent rate increase to AB 1629 nursing facilities, at a cost of \$80 million, expected to be fully offset by an increase in the quality assurance fee (QAF) achieved by: 1) assessing fees on currently exempted multi-level retirement communities; 2) decreasing DPH licensing and certification fees; and, 3) using more recent data on which the fee is based.
- Proposes increased oversight of skilled nursing facilities staffing and changes to payment methodology, by adding 45.5 positions to the DHCS and DPH, costing \$2 million which is expected to be offset by proposed penalties on facilities.
- Proposes 53 new limited-term positions at a cost of \$4.1 million to implement the pending federal Section 1115 Hospital Finance Waiver.
- Proposes a 3.7 percent rate increase to managed care plans, at a cost of \$174 million.
- Restores \$108.6 million in funding to Medi-Cal in response to unrealized savings from unimplemented policies adopted previously that were litigated and resolved not in favor of the state, including: 1) 10 percent rate reduction to hospitals; 2) freezing of reimbursement rate for long-term care facilities; 3) limiting of ADHC services; 4) reimbursement rate change for pharmaceuticals; and, 5) retroactive 10 percent rate reduction to long-term care.
- Requires DHCS to perform rate studies on the maximum allowable ingredient cost on generic drugs and the rate for physician administered drugs and provides \$400,000 for these purposes.

*Adjustments to January Budget Proposals:*

- Proposes the following detailed policies related to the January proposal to achieve \$750 million in General Fund savings through cost containment measures in Medi-Cal:
  - a. Utilization controls (\$90.2 million) including: 1) Elimination of specified over-the-counter drugs (\$13 million); 2) a maximum annual benefit on hearing aids at \$1,510, durable medical equipment at \$1,659, urological supplies at \$6,435, and wound care supplies at \$391 (\$3.8 million); 3) limit on prescriptions to six per month (\$4.2 million); and, 4) limit the number of physician or clinic visits to 10 per year (\$69.2 million).

- b. **Increased cost sharing (\$218.8 million) with: 1) \$5 co-payments on physician/clinic/dental/pharmacy visits (\$118.2 million); 2) \$50 co-payments on emergency room visits (\$41.5 million); and, 3) \$100 per day co-payments and \$200 maximum for hospital stays (\$59.1 million).**
- c. **Other program changes (\$213.7 million) including: 1) enroll seniors and people with disabilities in managed care (\$137.3 million); 2) reduce radiologist rates to 80 percent of Medicare (\$10.5 million); 3) freeze hospital rates at current level (\$64.9 million); and, 4) cease paying for Medicare Part B premiums for beneficiaries whose income exceeds the Medi-Cal eligibility threshold by less than \$500 per month (\$1 million). This also reflects loss of \$76 million in savings from not adopting various January proposals.**
- Increases the Medi-Cal budget by \$1.8 billion and rescinds the January proposal to raise California's base Federal Medical Assistance Percentage (FMAP) from 50 to 57 percent.
- **Assumes increase in federal funds of \$1.6 billion (\$55 million more than January proposal) as a result of: 1) federal reimbursement for cost of incarcerating undocumented immigrant felons; 2) funds owed to the state for incorrect Medicare disability determinations; 3) recalculation of state Medicare Part D clawback payments; and, 4) relief through the new Section 1115 Waiver.**
- Decreases Medi-Cal by \$447 million in 2009-10 and \$10 million in 2010-11 (in addition to \$225 million in 2010-11 savings in January budget) due to application of ARRA enhanced FMAP to clawback payments.
- Decreases Medi-Cal by \$300 million (in addition to the \$1.5 billion in January proposal) due to revised estimate of extending ARRA, largely due to ARRA now applying to clawback payments and a lower IHSS savings proposal.
- **Proposes to extend the AB 1383 hospital fee for two quarters resulting in \$160 million savings in Medi-Cal, \$700 million in increased fee revenue, and \$1.1 billion in federal matching funds.**
- Decreases Medi-Cal by \$44 million due to a methodology change in determining funding growth for County Administration.
- Shifts \$11.3 million in Prop 99 funds, to backfill General Fund in Medi-Cal, from the Asthma Public Health Initiative (APHI) (\$1.3 million) and the Expanded Access to Primary Care program (\$10 million). This would eliminate the APHI, which currently educates and supports an estimated 365,000 people, approximately half the number of people served prior to 2009 budget reductions.

**Managed Risk Medical Insurance Board**

- Restores \$63.9 million to Healthy Families Program, and \$3.9 million to the CCS program, due to rescission of Healthy Families eligibility reduction proposal which would have violated federal law. The rescinded proposal would have uninsured approximately 216,000 children.
- Proposes to increase monthly premiums in Healthy Families for families between 200 and 250 percent FPL by \$18 per child (\$54 maximum per family with 3 or more children) for increased funding to the program of \$13.3 million.
- Reduces \$48.9 million in General Fund to Healthy Families to reflect higher-than-anticipated AB 1422 revenue.
- Proposes to reduce Healthy Families by \$3.2 million by increasing emergency room co-payments from \$15 to \$50 (\$2.5 million) and adding hospital inpatient services co-payments of \$100 per day with a \$200 maximum (\$0.7 million).
- Proposes a one-time increase of \$25.8 million from the state and local First 5 California Children and Families Commission for children up to five years old in the Healthy Families Program, between 200 and 250 percent FPL. Total requested contribution for 2010-11 is \$81.4 million.
- Proposes that the MRMIB Board consider increasing cost sharing from 1.5 to 2 percent to meet increased caseload in the Access to Infants and Mothers Program (AIM).