

California's New Budget – Fiscal Year 2011-2012

For the first time in years California has a balanced budget on time: Governor Brown signed the new budget on June 30, just in time for the start of the state's new fiscal year on July 1, 2011. This final budget closes the last of the deficit remaining from the state's original \$26 billion deficit inherited from the Schwarzenegger Administration. An additional \$6.6 billion in additional tax revenue collected by May this year helped to reduce the remaining deficit, but not enough to remove the need for further cuts. The final budget does not include the extension of taxes that the Governor sought, doesn't solve the state's structural deficit problem, and makes deep cuts to health, human services, and education.

How We Got Here

- The final budget is built on a series of major cuts in services—about \$11 billion worth-- that the Legislature and Governor Brown agreed to back in March. At the time the plan was that roughly half the state's budget deficit would be met through program cuts and the other half would be met through the extension of existing tax increases for five years, to be approved in a special election this year.
- The March cuts and the proposed tax extensions, coupled with the realignment of some programs to the local level and the elimination of redevelopment programs, were intended to address the state's structural budget deficit and move the state gradually into the black over the next few years.
- The service cuts were approved, but the Governor was unable to persuade four Republicans to cross party lines for the 2/3 vote required to place the revenue extensions on a special election ballot in 2011.
- Since the revenue extensions won't be voted on in a special election this year and the state's constitution requires a balanced budget, the Legislature and Administration were left to make up the remainder of the deficit-- \$9.6 billion worth-- some other way.
- The Democrats passed a budget earlier this month on a simple majority vote, as allowed under last November's passage of Proposition 25, apparently meeting the requirement for a final balanced budget by June 15th. (Proposition 25 also includes a provision cutting off legislators' pay for every day they fail to pass a budget past the constitutional deadline.)
- Governor Brown vetoed the budget-- the first time an entire budget has been vetoed in almost 100 years-- saying that it did not address the structural deficit. State Controller John Chiang, denying the budget was truly "balanced", then began withholding legislators' pay. The Democrats went back to the table, negotiating with the Governor on cuts and revenue options.
- The final budget was passed by the Legislature on June 29 and signed by the Governor on June 30, the day before the new fiscal year began.

What's In the New Budget and How Does It Close the Deficit without Tax Extensions?

The final budget includes all those cuts taken in March in the first round of budget agreements, including:

- major cuts to Medi-Cal, including the creation of co-pays for services, limits on services to adults, and reductions in health provider reimbursement;
- increased premiums and co-pays for children in the Healthy Families Program for low-income working families;

- major cuts to CalWORKS, the state's welfare program, including a reduction in cash grants and restrictions on the length of time adults can remain on the program; and
- cuts in other programs, including Adult Day Health, services for adults and children with developmental disabilities, and child care.

(See the following Appendix specifying the cuts in health and developmental services for children. Co-pays in Medi-Cal as well as increased premiums and co-pays in Healthy Families are subject to federal approval. As of July 27, 2011, the state has requested but not yet received this approval.)

The budget agreement also includes:

- an assumption that state revenues over the next six months will be \$4 billion higher than the level forecast in the Governor's May Revision;
- a set of additional "trigger reductions" that will occur if revenues do not increase by at least \$3 billion above previously forecast levels; and
- parts of the package originally passed by the Democrats in the Legislature that Governor Brown vetoed nearly two weeks ago, including:
 - \$150 million in cuts each to the University of California and California State University;
 - \$150 million in cuts to state courts;
 - \$1.7 billion in cuts to funding of redevelopment agencies;
 - \$2.8 billion in savings from deferrals of payments to K-12 schools and community colleges;
 - \$200 million in revenue from enforcement of online tax collection from certain retailers;
 - \$300 million in revenue from a \$12 per vehicle increase in DMV registration fee;
 - \$50 million in revenue from fire fees to be imposed on rural homeowners; and
 - higher tax receipts (now worth \$1.2 billion for May and June).

Finally, there are some changes from the March budget agreement and from the Governor's May Revision:

- the final budget does not include the transfer of the Healthy Families Program to Medi-Cal, as proposed in the Governor's May Revision;
- cuts (up to 15% of grant amount) to child-only CalWORKS grants that were part of the March budget deal are rescinded; and
- \$43 million in funding is restored to CalWORKS employment services and Stage 1 child care.

How the Budget Trigger Would Work

The "trigger reductions" come in three tiers, based on how much of the expected extra \$4 billion in revenue is received by the end of 2011. Additional cuts would be triggered as of January 2012, depending on the amount of revenue collected, as detailed below.

Tier 0: If the state receives \$3-4 billion of the expected revenue, no further cuts are triggered.

Tier 1: If the state receives \$2-3 billion of the expected revenue, the following reductions are triggered:

- \$100 million from the University of California;
- \$100 million from the California State University;
- \$100 million from the Department of Developmental Services;
- \$100 million by reducing hours in the In-Home Supportive Services (IHSS) Program;
- \$72 million from the Division of Juvenile Justice (DJJ) by collecting additional “sliding scale” fees paid by counties that commit youths to DJJ facilities;
- \$30 million from California Community Colleges (CCC) and increasing student fees by \$10 per unit, from \$36 per unit to \$46 per unit, beginning in the winter term of the 2011-12 academic year;
- \$23 million from child care programs administered by the California Department of Education;
- \$20 million from the Department of Corrections and Rehabilitation;
- \$16 million from the California State Library for library grants;
- \$15 million by extending various Medi-Cal managed care reductions approved in March to the Program of All-Inclusive Care of the Elderly (PACE), the Senior Care Action Network, and the AIDS HealthCare Foundation;
- \$15 million by reducing “vertical prosecution grants” administered by the California Emergency Management Agency, which provide local prosecutors with funding for specialized prosecution teams; and
- \$10 million by reducing funding for IHSS anti-fraud grants.

Tier 2: If the state receives \$0-2 billion of the expected revenue, the following reductions are triggered:

- Tier 1 cuts, as described above;
- \$1.5 billion from K-12 education (legislation included in the June 28 budget agreement would allow school districts to reduce the 2011-12 school year by up to seven days in order to achieve this mid-year reduction);
- \$248 million by eliminating funding for home-to-school transportation; and
- \$72 million by reducing California community college funding.

What’s Next?

According to the Brown Administration, the new budget solves about 75% of the structural deficit and without further action to address the imbalance between expenditures and revenues, the state will be looking at another multi-billion-dollar deficit-- estimated at \$5-6 billion-- next year. It is expected that the Governor will focus on placing a revenue increase initiative on the ballot sometime in 2012, most likely the November ballot. Because the taxes that the Governor originally sought to extend on the ballot this year expired June 30, any future ballot measure will be framed as “new taxes”, potentially complicating the initiative campaign.

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APPENDIX: Summary of Cuts to Children’s Health and Developmental Programs

Medi-Cal Co-Pays

Cuts to the Medi-Cal program, including new co-pays that affect all recipients and “soft caps” on the number of physician visits and other cutbacks that apply only to adults, were made in March, 2011. Under the new co-payment structure, a Medi-Cal enrollee must pay the co-payment at the point of service and the Medi-Cal provider will be reimbursed the Medi-Cal payment minus the copayment. If the Medi-Cal enrollee does not have the copayment, the provider can deny the service. Hospitals still must comply with the Emergency Medical Treatment and Active Labor Act (EMTALA), and therefore it is believed likely that most hospital care still would be provided.

The co-payments are as follows:

- mandatory copayments of \$5 per visit at the point of service for Physician Office Visits and Clinic Office Visits (reduction of \$152.8 million in General Fund);
- mandatory copayments of \$3 per prescription for preferred drugs (Generics) and \$5 per prescription for non-preferred (Brand) at the point of service (reduction of \$140.3 million in General Fund);
- mandatory copayments of (1) \$50 for Non-Emergency Room use of an Emergency Room; (2) \$50 for Emergency Room use (applied to the inpatient stay co-pay if child is admitted); and (3) \$100 for an Inpatient Day, with a maximum of \$200 per Inpatient stay (reduction of \$262.8 million in General Fund); and
- mandatory copayments of \$5 per Dental Office Visit (reduction of \$27.9 million in General Fund).

As noted earlier, these co-pays are subject to federal approval, which has not yet been given.

Healthy Families Program Premium and Co-Pay Increases

The new budget increases premiums for Healthy Families enrollees as follows (Program-wide reduction of \$22.2 million in General Fund, but because of the rich federal match, a total reduction of \$63.3 million in the Program):

- 151% to 200% of Federal Poverty Level (FPL): Increase premiums by \$14 per child, for a total of \$30 per child per month, with a family maximum of \$90 per month for three or more children; and
- 201% to 250% of FPL: Increase premiums by \$18 per child, for a total of \$42 per child per month, with a family maximum of \$126 per month for three or more children.

Co-payments paid under the Healthy Families Program will be increased to match the new Medi-Cal co-pays as follows:

- \$50 for Non-Emergency Room use of an Emergency Room;
- \$50 for Emergency Room use (applied to the inpatient stay co-pay if child is admitted); and
- \$100 for an Inpatient Day, with a maximum of \$200 per Inpatient stay.

In lieu of eliminating vision coverage as a Program benefit, as proposed by the Governor, the budget will cut costs associated with both eyeglass frames and lenses and will modify the reimbursement rate.

As noted earlier, co-pay and premium changes are subject to federal approval, which has not yet been given.

Reductions to Developmental Services through the Regional Centers

The final budget will continue the existing 4.5% reduction to Regional Center Operations and Purchase of Services agreed on in March. Based upon the Governor's May Revision, the Legislature also adopted a package of new program changes and reductions to achieve the required additional reduction of \$174 million in General Fund expenditures. These reductions include the following:

- reduction in Regional Center Operations by an additional \$14.1 million;
- implementation of an annual Family Program fee in the amount of \$150 or \$200 depending on family income;
- reduction in Supported Living Services by a total of \$5.5 million through: (1) requiring Regional Centers to assess during Individual Program Planning meetings whether there are tasks that can be shared by consumers who live with roommates; and (2) requiring an independent assessment for all consumers in Supported Living with costs that exceed 125% of the annual statewide average cost of providing Supported Living Services and reducing those expenditures by an average of 5%; and
- modification and transfer of the Prevention Program to the Family Resource Centers, for a reduction of \$7.5 million in General Fund expenditures.

Changes in In-Home Supportive Services (IHSS)

The final budget includes changes to IHSS that are anticipated to result in \$336.8 million reduction in General Fund expenditures for the program, including establishing a new requirement that new applicants for and current recipients of IHSS must obtain certification from a physician or other licensed health care professional declaring that they are unable to perform one or more activities of daily living independently, and that without one or more IHSS services, are at risk of placement in out-of-home care (reduction of \$67.4 million in General Fund). (See the CRISS website for information for families and their children's physicians on the new IHSS certification letter requirement, including a template letter for physicians.)

The budget also created a "trigger mechanism" for alternative reductions in IHSS if the Department of Finance determines that the projected savings will not be achieved. The trigger reductions include implementing an across-the-board 20% reduction in IHSS services, beginning January 1, 2012, that would affect approximately 374,000 IHSS recipients.