



**May 14, 2010**

**BUDGET UPDATE: GOVERNOR'S MAY REVISION**

***Budget Boogieman:*** Governor Arnold Schwarzenegger unveiled his last May Revision today; clearly lacking the enthusiasm he exhibited in the previous six deliveries. He said the Budget should be a reflection of what “We in California value the most.” Given what he subsequently proposed, that statement left everyone wondering what HE values most. The Governor blamed “special interests” for causing a “budget boogieman” every year in which there are demands that one time money be spent and more taxes be raised and the dance continues.

***A Full Jar:*** With the “feds not paying their bills,” the economic crisis, pension costs, and court decisions blocking recent budget cuts, there was plenty of blame to spread around. However, the lack of reform is where the Governor placed the biggest dollop of blame. “If we had reforms in place we wouldn’t have these Sophie’s choices today.” It was just unclear what kind reforms he was referring to.

***Dreaded Checks & Balances:*** The Governor also criticized the courts for blocking cuts enacted in recent budgets that have added to the current \$19.1 billion shortfall (down from the \$19.9 billion in January). He said, “Before we used a scalpel. Now we must use an axe.” “There are no more low hanging fruits, or medium fruit, or high fruit. We must take the ladder away and shake the whole tree!”

The Governor pledged to keep his feet solidly planted on the ground and NOT sign a budget until he gets budget reform and pension reform, because “Californians deserve a better system.”

***What’s a Revision Anyway?*** The May Revision is CHANGES to the Governor’s January Budget. If you do not see items listed on these pages that were included in January, such as funding for elections, or a discussion of mandates, it does not mean that they are no longer part of the Budget. It simply means that there are no alterations to what the Governor proposed in January. The purpose of the Revision is to allow the Department of Finance to update its estimates of both revenues and expenditures closer to the time that the Legislature is scheduled to adopt the Budget. It also serves as a platform for the Governor to put new ideas on the table for the Legislature’s consideration and to make *Revisions* to his January proposals.

## Health and Human Services

### Medi-Cal

#### **Medi-Cal Reductions:**

- Cost containment proposals for a savings of \$523 million
  - Limits on Medi-Cal services \$90.2 million
    - Eliminate certain over-the-counter drugs and nutritional supplements (\$13 million)
    - Establish a maximum annual benefit on hearing aids (\$1,510), durable medical equipment (\$1,604), incontinence supplies (\$1,659), urological supplies (\$6,435), and wound care supplies (\$391) for a total savings of \$3.8 million
    - Limit prescriptions to 6 per month except for life saving drugs to save \$4.2 million
    - Limit doctor visits to 10 per year to save \$69.2 million
  - Increase co-payments for recipients (\$218.8 million in savings)
    - Implement \$5 co-payments on doctor, clinic, dental and pharmacy benefits (\$118.2 million)
    - Implement a \$50 co-pay on Emergency Room visits (\$41.5 million)
    - Implement a \$100 per day co-pay on hospital stays with a \$200 maximum (\$59.1 million)
  - Other reductions (\$213.7 million)
    - Enroll seniors and people with disabilities in managed care programs (\$137.3 million)
    - Reduce radiologist rates to 80% of Medicare rates (\$10.5 million)
    - Freeze hospital rates (\$64.9 million)
    - Require beneficiaries whose income exceeds the Medi-Cal eligibility threshold by less than \$500 per month to pay their own Medicare Part B premiums (\$1 million)
  - Additional federal flexibility or funding on the Governor's wish list (\$1.6 billion)
    - The Governor is requesting the funds to incarcerate undocumented felons in state prison
    - Federal money owed to the state for incorrect Medicare disability determinations
    - Recalculation of Medicare Part D clawback payments
    - Increased federal funding through the 1115 waiver
    - Decrease of \$447 million in 09-10 and \$10 million in 10-11 due to the federal decision to apply ARRA enhanced funding to clawback payments. This is in addition to \$225 million of savings originally estimated in the January Budget Proposal.
    - Decrease of \$300 million due to revised estimates of extending ARRA. This is in addition to \$1.5 billion of savings originally included in the January Budget Proposal.

- Decrease of \$160 million due to a proposed 2 quarter extension of the AB 1383 hospital fee through 2010-11 to conform to expected extension of ARRA in the President's Budget.
- Decrease of \$44 million due to change in methodology to determine funding growth for County Administration payments. Historical methodology included duplicative adjustments for caseload growth's impact on administration.
- Decrease of \$11.3 million by using Prop 99 tobacco tax funds for funding Medi-Cal rather than the asthma education program (\$1.3 million) and Expanded Access to Primary Care Clinics (\$10 million).

***Medi-Cal Adjustments:***

- Restoration of optometry services for adults (eliminated in 2009) in order to comply with federal health care reform (\$1.3 million.)
- Increase of \$108.6 million due to court rulings blocking previous reductions to the Budget including:
  - 10% Medi-Cal rate reduction (restoration retroactive to July 1, 2008)
  - Freezing the reimbursement rate at 2008-09 level for nursing facilities and pediatric sub acute providers (\$28.2 million)
  - Limiting Adult Day Health Services (\$15.9 million)
  - Reducing the reimbursement rate for pharmaceutical products (\$41.7 million)
  - Increase of \$4.1 million to the Department of Health Care Services for the implementation of the 1115 Hospital Finance Waiver.
  - 3.7% rate increase to managed care plans (\$174 million).

**Healthy Families Program:**

***Healthy Families Program Reductions:***

- Monthly premiums increase in families with incomes from 200 to 250% of federal poverty level effective September 1, 2010 (\$13.3 million)
- Increase in co-pay for Emergency Room visits from \$15 to \$50 (\$2.5 million) and adding co-pays of \$100 per day with a \$200 maximum on inpatient services (\$700,000).

***Healthy Families Program Adjustments:***

- \$63.9 million restoration of funding for children from 200 to 250% of federal poverty level as required by federal health care reform. A conforming increase of \$3.9 million in the California Children's Services Program.

**AIDS Drug Assistance Program (ADAP):**

- Decrease of \$32.7 million:
  - Court ruling requiring a reduction in the average wholesale price of brand name drugs
  - Elimination of ADAP for county jail inmates
  - Adjusted data estimates

- \$10.5 million decrease in Rebate Fund revenues due to lower than projected program expenditures and elimination of ADAP eligibility to county jail inmates.

***Food Stamp and Child Welfare Services:*** The May Revision shifts county mental health realignment funding to county social services programs and eliminates the majority of funding for county mental health services for a state savings of \$602 million.

**Mental Health:**

***Mental Health Program Reductions:***

- \$7.2 million reduction in the Sex Offender Commitment Program to reflect anticipated savings in the Sexually Violent Predator Program.
- Redirects \$602 million to the State General Fund for the Food Stamp Program and Child Welfare Services. \$435 million is left for counties to continue providing federally required mental health services.
- Suspension of the AB 3632 mandate requiring counties to provide mental health services to special education students (\$52 million)

***Mental Health Program Adjustments:***

- Increase of \$452.3 million to restore funding to the Early and Periodic Screening, Diagnosis and Treatment program and the Mental Health Managed Care program. Funding for these programs was proposed to be redirected from the Mental Health Services Fund, which would have required voter approval.

**CalWORKs:** The May Revision proposes to eliminate the CalWORKs program on October 1, 2010. Savings of \$1.1 billion is in addition to the reduction proposals from January. The \$1.1 billion in savings would be redirected to departments and programs that receive federal Temporary Assistance for Needy Families Block Grant funds.

**In Home Supportive Services (IHSS):** The Administration seems to have abandoned its January proposals to eliminate IHSS services for most of the current population and drop the State's participation in provider compensation to the level of the minimum wage. (These proposals are still being litigated.) The Administration instead, plans to get the stakeholders together and find a way to achieve \$637.1 million in annual savings in time for the 2010-11 Budget to begin. Once we receive further clarification we'll pass it on to you.

**Child Care Programs:** The May Revision reduces child care and development programs by eliminating need-based subsidized child care except for preschool to save \$1.2 billion.

**Lost Savings:** The Governor lists lost savings to the General Fund due to the delayed implementation of many of his proposals from January:

- \$146 million lost due to the delayed implementation of the CalWORKs reduction proposals and the reduced IHSS savings target.

- \$550 million lost because the proposal to shift California Children and Families Act of 1998 (Proposition 10) revenues was not adopted in time to be considered by the voters in the June election.
- \$86.9 million lost because federal eligibility for Foster Care was not established.
- \$45 million lost by not reducing SSI/SSP grants to the federal minimum.
- \$33.6 million lost by not eliminating the Cash Assistance Program for Immigrants Program.
- \$13.3 million lost by not eliminating the California Food Assistance Program.
- \$53.4 million lost by not eliminating all Drug Medi-Cal programs with the exception of the Perinatal and Minor Consent programs.

## **Transportation**

**Transportation:** The May Revise proposes to loan \$1.2 billion to the General Fund from transportation accounts. This includes the following:

- \$650 million in gasoline excise tax revenues loaned to the General Fund with a repayment date of June 2013. The gas tax swap enacted in March included an “excess” \$650 million in new excise tax revenue that was not allocated to the SHOPP, STIP, or Local Street and road programs. The Governor proposes to loan these unallocated funds to the General Fund. When the funds are repaid in 2013, the Governor proposes that these funds be used for state highway maintenance projects.
- \$230 million in existing loans from the State Highway Account to the General Fund will be repaid June 2012 instead of June 2011.
- \$250 million in Motor Vehicle Account funds are loaned to the General Fund. The Summary notes that this loan is dependent upon the adoption of staffing reduction proposed by the Governor.
- \$72.2 million in non-Article 19 funds in the Motor Vehicle Account are transferred to the General Fund. Non-Article 19 funds are primarily from rents and document sales and are not constrained by Article 19 of the Constitution.

**Caltrans Staff:** The May Revise proposes to reduce funding for the Capital Outlay Support program by \$42.3 million. This includes a reduction of 750 positions and 102 overtime position-equivalents, but it increases contract staff by 69.

**Rail Funds:** The Revise authorizes Caltrans to use \$100.2 million in ARRA funds the Department received for high-speed intercity rail projects.

## Administration of Justice

The major changes in the May Revision related to the administration of justice primarily focus on the Department of Corrections and Rehabilitation (CDCR), including an extension of the program to contract for out-of-state beds for inmates and exploring the closure of entire housing units and yards. The closure would be reflective of a decrease in the adult prison population. Other proposals include:

- Withdrawal of the Governor's Felony Prison Term Reform proposal. The proposal called for modifying sentencing practices by allowing specified non-serious, non-violent, non-sex felony offenders, including those convicted of drug possession, to be incarcerated for up to one year in county jail. The proposal was estimated to provide a General Fund savings of \$291.6 million in 2010-11.
- Withdrawal of the governor's Juvenile Offender Population Reform proposal, which would have reduced the age jurisdiction of the Division of Juvenile Justice to 21 from 25.
- A proposal to provide for non-serious, non-violent, non-sex offenders convicted and sentenced to three years or less to serve their sentences in county jails. The state would provide counties with block grants of approximately \$11,500 per offender for programs and services, including alternative sentencing, drug courts and probation programming. **It should be noted that the proposed level of funding per inmate, when calculated on an annual basis, is less than one-half of the Daily Jail Rate that the state pays to counties for housing state inmates. The proposal has an estimated savings of \$243.8 million for the state.**
- A block grant of \$15,000 per Division of Juvenile Justice parolee under the supervision of a county probation department for the provision of the necessary resources to supervise the parolees.
- A \$502.9 million annual increase in a continuous appropriation, beginning in 2011-12, to local jurisdictions for public safety programs that are currently being funded by using a portion of revenues from Vehicle License Fees.

The governor is proposing to increase the court security fee by \$15 for allocation to the Trial Court Trust Fund, and continues to propose the implementation of an Automated Speed Enforcement program, with the revenues – an estimated \$206 million – going to support operations of the judiciary.

## General Government

**Operation Welcome Home:** This initiative, operated through the Employment Development Department to connect returning California veterans with the multi-agency

services necessary to assist them in making a successful transition to civilian life, will receive an increase of \$8.4 million in General Fund dollars. The funds will augment county veteran service office efforts to aid veterans in seeking services, receiving services, and maximizing federal benefits available to them.

There will also be a one-time increase of \$768,000 from the Veteran Service Office Fund for a case management system to help facilitate workload related to Operation Welcome Home. This system is intended to help veteran service offices maximize outreach efforts and monitor outcomes.

**Borrowing Costs:** Heavens, a grain of good news here! The costs to the General Fund for borrowing in the budget year will drop by \$419.4 million or 6.7 percent below what was estimated in January. This is because of lower than anticipated General Obligation Bond debt service and decreased interest costs.

**Employee Compensation Changes:** Both General Fund and Special Fund costs for State employees are expected to decrease in the Budget year as compared to the January estimates due to the implementation of two new policies:

- A one-day-per-month “personal leave program” for all state civil service employees.
- The availability of reinsurance costs for early retirees included in the Federal Health Care Reform Act.

The General Fund savings are pegged at \$645.7 million while non-General Fund expenditures are expected to decrease by \$149.8 million.

**State Appropriations Limit:** The Department of Finance calculated the State Appropriations Limit (SAL) according to Article XIII B of the Constitution in January at \$79.186 billion. The Department has recalculated it for the Revision at \$79.118 billion, a reduction of \$68 million.

## Natural Resources

**Gulf Spill Spending Impacts:** Due to the environmental catastrophe resulting from the ongoing oil spill in the Gulf of Mexico the Governor has withdrawn his proposal for drilling in the Tranquillon Ridge area off the Santa Barbara Coast. Since he had proposed to finance the Department of Parks and Recreation with revenues from Tranquillon Ridge oil, he is replacing those foregone revenues at Parks and Rec with \$140.1 million in General Fund.

**Forestry and Fire Protection:** Since the Legislature did not act quickly on the Governor’s January proposal to fund the Department of Forestry and Fire Protection with a 4.8 percent fee on fire insurance policies known as the “Emergency Response Initiative,” the Governor is backfilling this “loss” with \$124 million in General Fund. He

still expects action, action, action in time for a July enactment of this surcharge; otherwise there will be another big hole in the Budget.

**Fish and Game:** Mamas don't let your babies grow up to be wardens; there are not enough of them to cover each other. This department seems to get cut every year and the Revision proposes another \$5 million whack, this time to habitat conservation and restoration programs, review of timber harvest plans, and grants for fisheries' restoration projects.

**Bond Funds in the Bank?** The Governor is confident that the November water bond will pass and is proposing to spend a total of \$1.1 billion from it at the Department of Water Resources and the Department of Fish and Game. He also plans for \$418.9 million in bond funds to be allocated by the Water Resources Control Board for advanced treatment technology projects and water recycling projects, as well as wastewater treatment plants. Remember that bond authority is not new revenue; it is just permission to borrow.