

CALIFORNIA BUDGET PROJECT

An Overview of Recent Cuts to California's Safety Net

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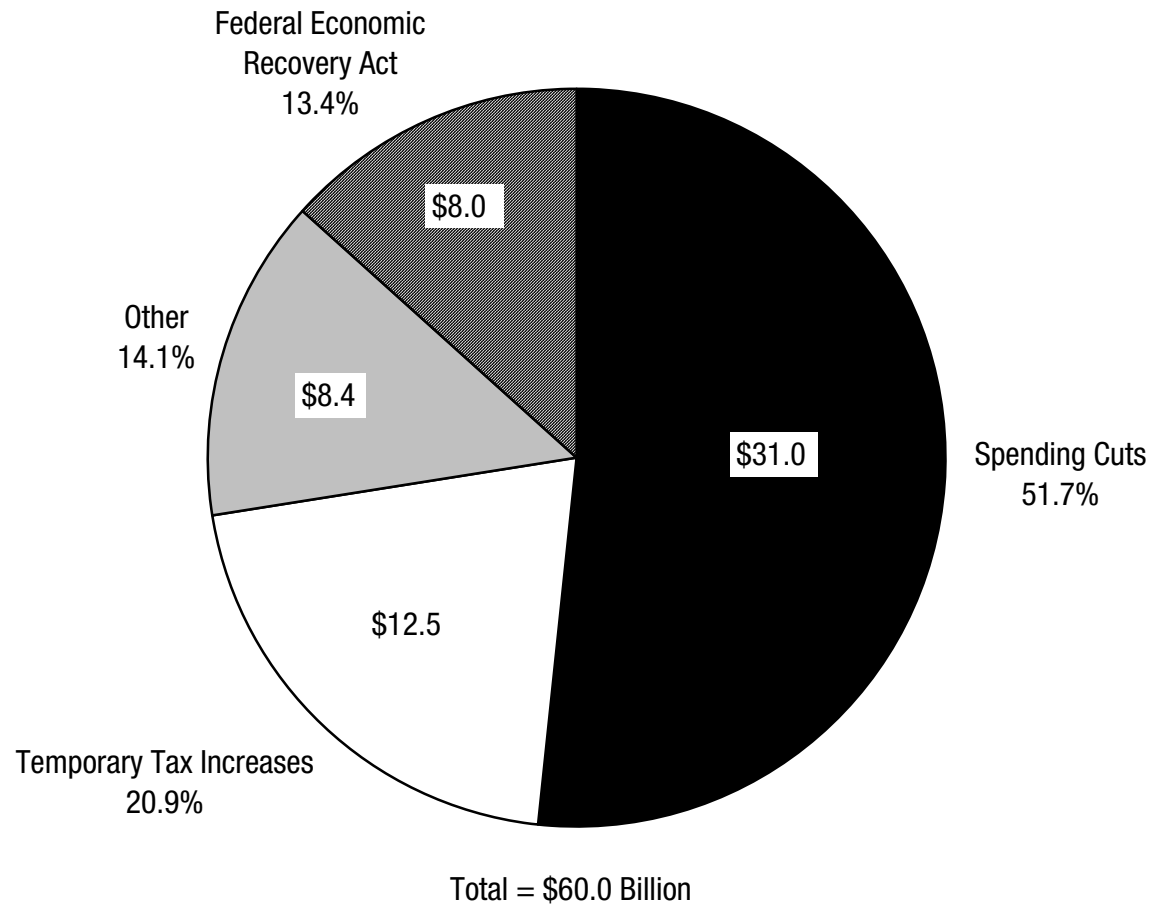
Summary

- In response to an unprecedented budget shortfall, the February and July budget agreements made significant funding cuts and policy changes targeting safety-net programs for low-income and vulnerable Californians.
 - The impact of most of these funding cuts and policy changes is already being felt across California.
 - In a few cases, the impact of the funding cuts and policy changes either is unclear or will occur in subsequent years.
- Policymakers made cuts to safety-net programs even as they preserved new corporate tax breaks that will cost the state \$2 billion – and potentially as much as \$2.5 billion – per year and further undermine the state’s revenue base.
- Cuts made in the February and July budget agreements will be difficult to reverse quickly.



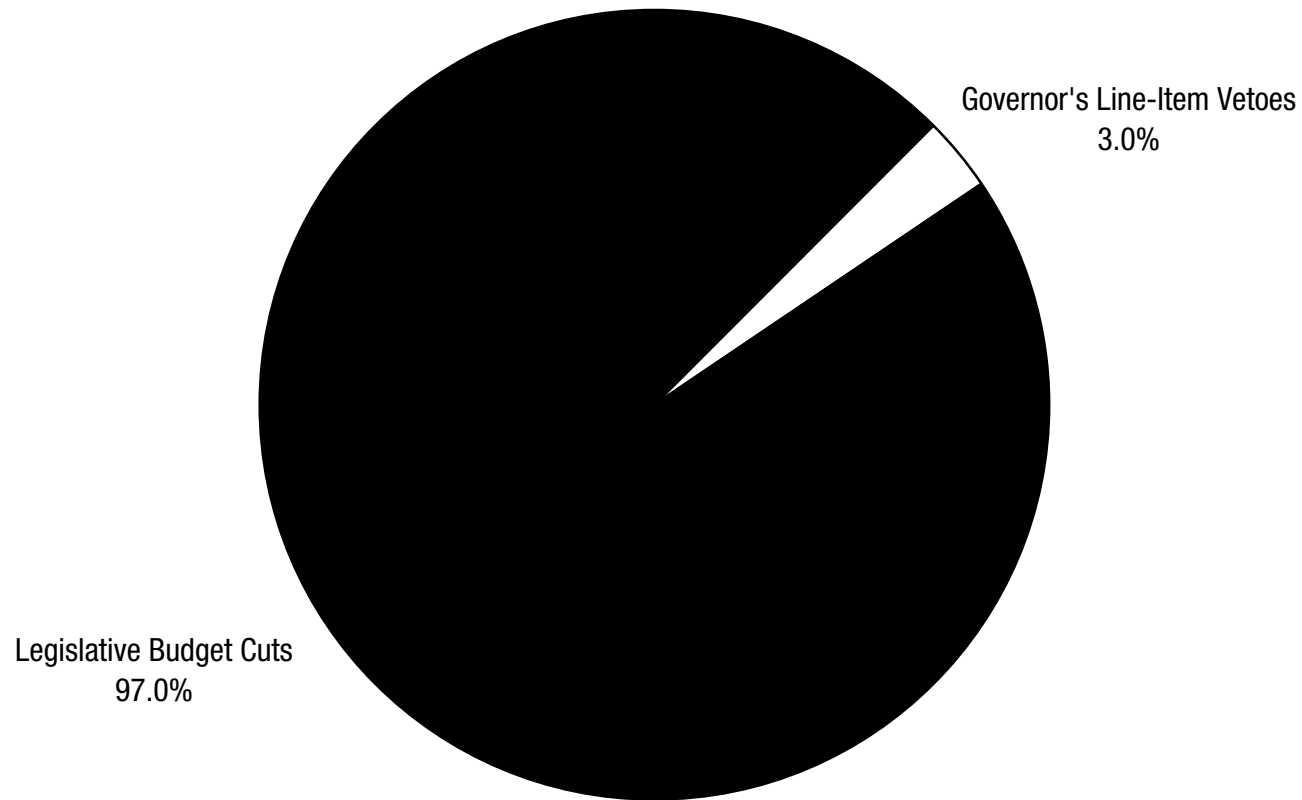
The February and July Budget Agreements Made Significant Funding Cuts and Policy Changes Targeting Safety-Net Programs

How the Budget Gap Was Closed (Dollars in Billions)



Note: Includes February and July 2009 budget agreements.
Source: Department of Finance

The Governor's Line-Item Vetoes Represent 3.0 Percent of the Total Expenditure Reductions in the July 2009 Budget Agreement



Total Expenditure Reductions = \$16.1 Billion

Source: Department of Finance

SSI/SSP Program — Immediate Impact

- The February and July budget agreements included three SSI/SSP grant cuts during 2009, effective May 1, July 1, and November 1, for total savings of \$871.0 million in 2009-10.
 - The maximum monthly grant for individuals will drop to \$845 on November 1, down from \$907 on April 1, a \$62-per-month (6.8 percent) cut.
 - The maximum monthly grant for couples will drop to \$1,407 – the federal minimum – on November 1, down from \$1,579 on April 1, a \$172-per-month (10.9 percent) cut.

SSI/SSP Program — Impact in 2010 and Beyond

- The February budget agreement suspended the June 2010 state cost-of-living adjustment (COLA) for SSI/SSP grants for one-month savings of \$27.0 million in 2009-10 – the fifth consecutive year that the statutory COLA has not been provided.
- The July budget agreement permanently eliminated the statutory state COLA for SSI/SSP grants effective June 2011.
 - The federal COLA on the SSI portion of the grant is not affected by this change.

CalWORKs Program — Immediate Impact

- The February budget agreement:
 - Suspended the July 2009 COLA for CalWORKs grants for savings of \$79.1 million in 2009-10 – the fifth consecutive year that the statutory COLA was not provided.
 - Cut grants by 4 percent effective July 1, 2009 for savings of \$146.9 million in 2009-10. The maximum monthly grant for a family of three dropped from \$723 to \$694 – the same amount as in 1989.
- The July budget agreement:
 - Cut funding to counties for employment services and child care by more than \$370 million in 2009-10.
 - Exempted certain parents who have young children from work participation requirements through June 2011.

CalWORKs Program — Impact in 2010 and Beyond

- The July budget agreement permanently eliminated the statutory COLA for CalWORKs grants effective July 2010.
- The July budget agreement also made several major policy changes scheduled to take effect in 2011. These changes:
 - Limit adults to 48 cumulative months of cash assistance in any 60-month period. (The lifetime limit remains at 60 months.)
 - Require certain adults to attend a “self-sufficiency review” with county workers; adults who fail to attend without good cause will have their grant reduced by 50 percent.
 - Cut, by up to 50 percent, grants for children in households in which adults do not meet work participation requirements. (This change affects children in sanctioned, safety-net, and certain child-only households.)

IHSS Program — February Budget Agreement

- The February budget agreement:
 - Reduced the maximum amount at which the state will share in the cost of wages and benefits for IHSS workers from \$12.10 per hour to \$10.10 per hour effective July 1, 2009.
 - A federal judge stopped this cut from taking effect.

IHSS Program — July Budget Agreement

- The July budget agreement, as approved by the Legislature, eliminated – with some exceptions – “domestic and related services” for certain IHSS recipients and all IHSS services for other recipients. These changes take effect November 1, 2009.
 - The agreement allowed the Department of Social Services (DSS) to waive any of the exemption categories if necessary to maintain federal funding.
 - The DSS waived an exemption for persons authorized to receive more than 120 hours of IHSS services each month. As a result, these individuals could lose some or all of their IHSS services if they do not meet the new eligibility criteria.
- An estimated 97,000 elderly and/or disabled individuals will lose some IHSS services, and an additional 36,000 will lose all services due to these changes.

IHSS Program — July Budget Agreement (Continued)

- In addition, the July budget agreement:
 - Eliminated, effective October 1, 2009, the state subsidy for IHSS recipients who must pay a share of cost to receive services for savings of \$41.1 million in 2009-10.
 - Requires IHSS recipients to be fingerprinted, except for minors and individuals who are physically unable to provide fingerprints.
 - Requires current and prospective IHSS providers to submit fingerprints and to undergo a criminal background check by the California Department of Justice.

Child Welfare Services and Foster Care Programs

Child Welfare Services Program

- In July, the Governor vetoed \$80.0 million from the 2009-10 appropriation approved by the Legislature.

Foster Care Program

- The July budget agreement cut three foster care rates – those for foster family agencies, group homes, and seriously emotionally disturbed children – by 10 percent for savings of \$26.6 million.

Healthy Families Program

- The Healthy Families Program faced a \$196 million state funding shortfall in 2009-10.
 - This shortfall was due mainly to the Legislature’s \$124 million reduction and the Governor’s \$50 million line-item veto, both of which were part of the July budget agreement.
- In response, the Managed Risk Medical Insurance Board (MRMIB), which oversees Healthy Families, established an enrollment freeze effective July 17. By mid-September, nearly 90,000 children were on the Healthy Families waiting list.
- In addition, MRMIB voted to remove children from Healthy Families starting November 1. More than 650,000 children would have been dropped from the program between November 2009 and June 2010 if this change had been implemented.

Healthy Families Program (Continued)

- However, on September 16, MRMIB lifted the enrollment freeze and rescinded its decision to drop children from Healthy Families because alternative sources of funding were identified to support the program:
 - AB 1422, signed by the Governor on September 22, will raise an estimated \$97 million in 2009-10 for Healthy Families by imposing a gross premium tax of 2.35 percent on Medi-Cal Managed Care plans.
 - The state First 5 Commission provided \$81.4 million to support enrollment of children through age 5 in Healthy Families.
 - The remaining shortfall (\$17.5 million) was closed by shifting costs to families, specifically by increasing families' premiums and copays for certain services, and by restricting children's access to higher-cost dental plans for their first two years on the program.

Community Clinic Programs

- The Legislature reduced General Fund support for community clinic programs by \$10.1 million in 2009-10.
- In July, the Governor vetoed an additional \$25 million to eliminate all General Fund support for these programs for total state savings of \$35.1 million in 2009-10.
- The following community clinic programs are affected by this cut:
 - Expanded Access to Primary Care Program (\$13.5 million).
 - Rural Health Services Development Program (\$8.2 million).
 - Seasonal Agricultural and Migratory Workers Program (\$6.9 million).
 - Indian Health Program (\$6.5 million).

Medi-Cal Program — February Budget Agreement

- The February budget agreement:
 - Eliminated 10 optional benefits, including dental services, for most adults effective July 1, 2009 for savings of \$122.2 million in 2009-10.
 - Reduced payments to public safety-net hospitals by 10 percent for savings of \$54.2 million in 2009-10.
 - Suspended the July 2009 “cost-of-doing-business” increase for county operation of Medi-Cal for savings of \$24.7 million in 2009-10.

Medi-Cal Program — July Budget Agreement

- The July budget agreement:
 - Assumes \$1 billion in state savings in 2009-10 from obtaining additional federal funds. It is not clear what will happen if these federal funds are not provided.
 - Assumes an additional \$323.3 million in state savings in 2009-10 due to unspecified reductions.
 - Reduced payments to private safety-net hospitals by 10 percent for savings of \$23.9 million in 2009-10.
- In July, the Governor used his line-item veto authority to cut state funding for county operation of Medi-Cal by \$60.6 million below the level approved by the Legislature.

Medi-Cal Waiver

- The July budget agreement (AB 6xxxx) requires the state to submit a waiver to the federal government that includes “restructuring proposals” aimed at improving coordination of care for several groups, including seniors and people with disabilities; improving health outcomes; and slowing the rate of growth of Medi-Cal spending.
- The waiver could result in more Medi-Cal beneficiaries being required to enroll in managed care, but must include criteria by which the state will evaluate and grant exemptions.
- AB 6xxxx aims for federal approval by September 1, 2010, or by the time the state’s current Medi-Cal hospital waiver expires.

Centralized Eligibility Processing

- Currently, county employees determine Californians' eligibility for CalWORKs, Medi-Cal, and the Supplemental Nutrition Assistance Program (still known as the Food Stamp Program in California).
- The July budget agreement (AB 7xxxx) established a process to shift this responsibility from the counties.
- If implemented, this change would likely result in a private contractor taking over eligibility processing, despite the fact that other states' privatized systems have failed.
- AB 7xxxx permits the Administration to proceed with procurement activities after the Legislature approves a comprehensive plan – which must be developed in consultation with stakeholders – and provides funding.

Other Key Funding Cuts

- The February and July budget agreements made significant cuts to other programs that are not generally considered part of the safety net. Affected programs include:
 - Developmental Centers and Regional Centers (the Legislature cut \$334 million; the Governor vetoed an additional \$50 million).
 - AIDS/HIV programs (the Legislature reduced funding; the Governor vetoed all remaining funding for most AIDS/HIV programs).
 - Domestic Violence Shelter Program (the Legislature reduced funding by 20 percent; the Governor vetoed all remaining funding).
 - Maternal, Child and Adolescent Health programs (the Legislature reduced funding; the Governor vetoed all remaining funding).
 - Children’s Dental Disease Prevention Program (the Legislature suspended the program).

It Could Have Been Worse

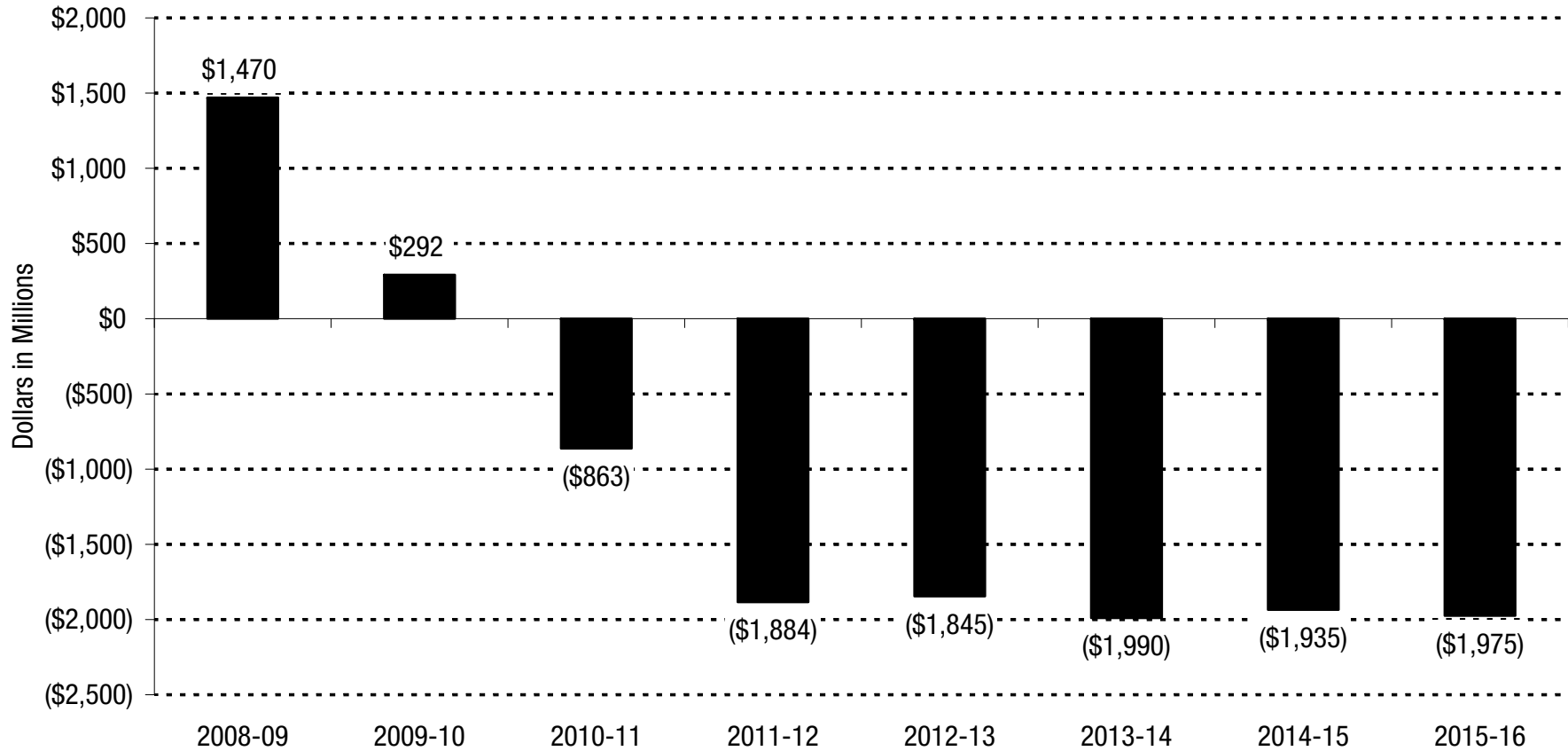
- The Legislature rejected the Governor's 2009-10 proposals to:
 - Eliminate the Healthy Families Program.
 - Eliminate Medi-Cal Adult Day Health Care Program services.
 - Eliminate the CalWORKs Program.
 - Eliminate services for more than 400,000 IHSS recipients – nearly 90 percent of the caseload.
 - Reduce the hourly wage for IHSS providers to the state's minimum wage of \$8.00 per hour.
 - Eliminate the Cash Assistance Program for Immigrants.
 - Eliminate the California Food Assistance Program.
 - Limit Medi-Cal benefits provided to certain immigrants, including legal immigrant adults in the US for less than five years, to emergency services.



Policymakers Made Cuts to Safety-Net Programs Even as They Preserved New Corporate Tax Breaks, Further Undermining the State's Revenue Base

2008 and 2009 Tax Cuts Will Cost \$2 Billion Per Year at Full Impact

Losses Will Continue Permanently



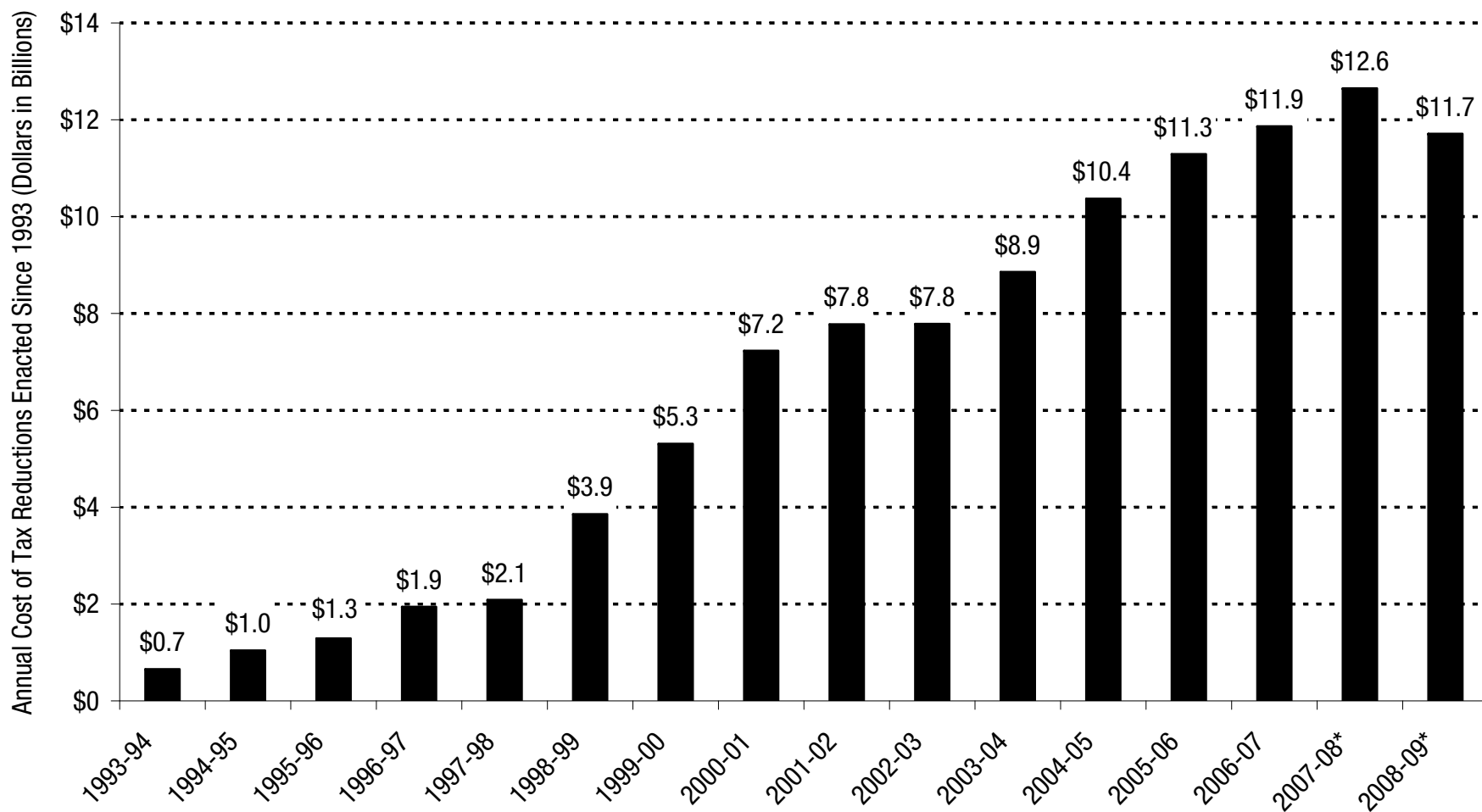
Net Cost of Tax Cuts in the September 2008 and February 2009 Budget Agreements

Note: Includes temporary business tax cuts enacted in February 2009.

Source: Franchise Tax Board

Tax Cuts Enacted Since 1993 Cost an Estimated \$11.7 Billion in 2008-09

2008-09 Drop Reflects Suspension of Net Operating Loss Deductions



*2007-08 and 2008-09 estimated.

Source: Assembly Revenue and Taxation Committee, Board of Equalization, Department of Finance, Franchise Tax Board, and Legislative Analyst's Office

Cuts Will Be Difficult To Reverse Quickly

- California is likely to face budget shortfalls for the foreseeable future because:
 - The February and July budget agreements rely heavily on one-time “solutions” to bridge the budget gap.
 - Billions of federal economic recovery dollars that are helping to bridge the gap will expire during or soon after 2010.
 - The tax increases enacted in February 2009 expire after two years.
 - Corporate tax cuts enacted in 2008 and 2009 have the potential to permanently reduce state revenues by upwards of \$2.5 billion each year.
 - The state’s economy is likely to remain weak for some time to come, limiting the growth of General Fund revenues.
- It will be difficult for state policymakers to quickly reverse cuts to safety-net and other programs, particularly in the absence of additional revenues.
- The supermajority vote requirement to pass a budget and any tax increase undermines policymakers’ ability to achieve a lasting budget solution.

California Is the Only State To Require a Supermajority Vote To Pass Both a Budget and Any State Tax Increase



Note: Arkansas, Florida, and Michigan require a supermajority vote for certain taxes.
Source: National Conference of State Legislatures