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WHAT WOULD PROPOSITION 67, THE 911 EMERGENCY AND TRAUMA CARE ACT, MEAN FOR CALIFORNIA?

Proposition 67, the 911 Emergency and Trauma Care Act, will appear on the November 2004 ballot. Proposition 67 would impose an additional 3 percent surcharge on telephone calls made within California to provide funding for emergency rooms, trauma centers, emergency doctors, community clinics, training and equipment for emergency personnel, and improvements to the 911 emergency number system. Proponents for the measure include physicians, hospitals, community clinics, nurses, and firefighters.

The following analysis examines the potential fiscal and policy impacts of Proposition 67. The California Budget Project (CBP) neither supports nor opposes this measure. This analysis is designed to highlight the potential impacts of Proposition 67 to help voters make informed policy choices.

What Does Proposition 67 Do?

Proposition 67 would impose an additional 3 percent surcharge on a customer's telephone bill for calls made within the state to fund emergency rooms, trauma centers, emergency doctors, community clinics, training and equipment for emergency personnel, and improvements to the 911 emergency number system.[1] The Legislative Analyst's Office (LAO) estimates increased revenues of about $500 million annually, which "would probably grow in future years with increases in telephone users and the number of calls made within the state."[2]

The state would deposit the revenues into a newly created 911 Emergency and Trauma Care Fund and allocate the funds to the following new accounts:

- ***60 percent - Emergency and Trauma Hospital Services Account.*** Administered by the Department of Health Services (DHS) to reimburse hospitals for uncompensated emergency and trauma care costs.

- ***30.5 percent - Emergency and Trauma Physician Uninsured Account.*** Administered by the DHS to reimburse physicians who provide uncompensated emergency medical care to uninsured patients. Proposition 67 creates the Emergency and Trauma Physician Services Commission to advise the DHS on implementation of the Emergency and Trauma Physician Uninsured Account.

- ***5 percent - Community Clinics Urgent Care Account***. Administered by the Office of Statewide Health Planning and Development to reimburse nonprofit clinics providing urgent care services to uninsured patients.

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- ***3.75 percent - Emergency and Trauma First Responders Account.*** Administered by the Office of the State Fire Marshal for training and related equipment for firefighters and pre-hospital emergency medical workers.

- ***0.75 percent - State Emergency Telephone Number Account.*** Administered by the Department of General Services for technological and service improvements to the 911 emergency system.

Proposition 67 specifies that the proposed 911 Emergency and Trauma Care Act may only be amended by the Legislature to further the purposes of the initiative and that any legislated changes must be approved by a four-fifths vote of the Legislature.

How Does California Provide Emergency Care?

Under state and federal law, all persons seeking emergency care must be provided the care, regardless of their ability to pay. Thus, emergency care is the only source of guaranteed outpatient care for millions of underinsured and uninsured Californians. Hospitals set their own billing policies, including those for uninsured patients. However, hospitals and physicians who provide emergency care are often not fully compensated for their services.

In recent years, there have been concerns that California's emergency health care system may not be able to meet the demand for services. Hospitals have experienced financial pressures for various reasons, including cost containment measures by employers and government programs. Financial pressures have led to a series of highly publicized emergency department closures. As a result, there have been a number of efforts to seek funding solutions to support the emergency health care system.[3]

The state and local governments provide limited funding to reimburse providers for some of the costs of uncompensated care. Funding sources include Proposition 99 funds and the Maddy Emergency Medical Services Fund.[4] The state allocated $30 million in 2001-02 and $20 million in 2002-03 for local trauma centers. However, General Fund support was eliminated in 2003-04 and 2004-05.

How Does Proposition 67 Affect Existing Funds for Emergency Care?

Proposition 67 requires the state to maintain existing funding for uncompensated care:

- ***Proposition 99 funds***. The state currently budgets about $32 million in Proposition 99 funds for physicians and community clinics that provide uncompensated care. Proposition 67 would dedicate $24.8 million in Proposition 99 funds to reimburse physicians and $6.8 million in Proposition 99 funds to reimburse community clinics. Overall Proposition 99 revenues have decreased due to the decline in tobacco use.

- ***Maddy Emergency Medical Services Fund***. Proposition 67 would preserve the purpose and funding source for the fund, but would make various administrative changes to align each county's Maddy Fund with the proposed new accounts.[5]

How Would Proposition 67 Increase Revenues?

Proposition 67 would impose a 3 percent surcharge on charges for telephone services within California, with the exception of "lifeline" services provided to low-income households. The surcharge would be limited to $0.50 per month for residential service. However, this limit would not apply to mobile, including cellular, telephone services. There would be no limit on the surcharge for commercial users or mobile services.

The LAO estimates that the surcharge would raise $500 million annually.

How Are Telecommunications Services Currently Taxed?

The state currently imposes a surcharge on intrastate telecommunication services to support the 911 emergency telephone system. The current surcharge is adjusted annually to reflect the estimated cost of the 911 system. Current law establishes a minimum surcharge rate of 0.5 percent and a maximum rate of 0.75 percent. In 2002-03, the state collected $131.2 million from the current surcharge.

A number of local governments also impose utility user taxes on telephone services. In 2004, 147 cities and six counties imposed utility taxes on telephone services at rates ranging from 1.0 percent to 11.0 percent.[6]

Other taxes and fees imposed on telecommunication services include:[7]

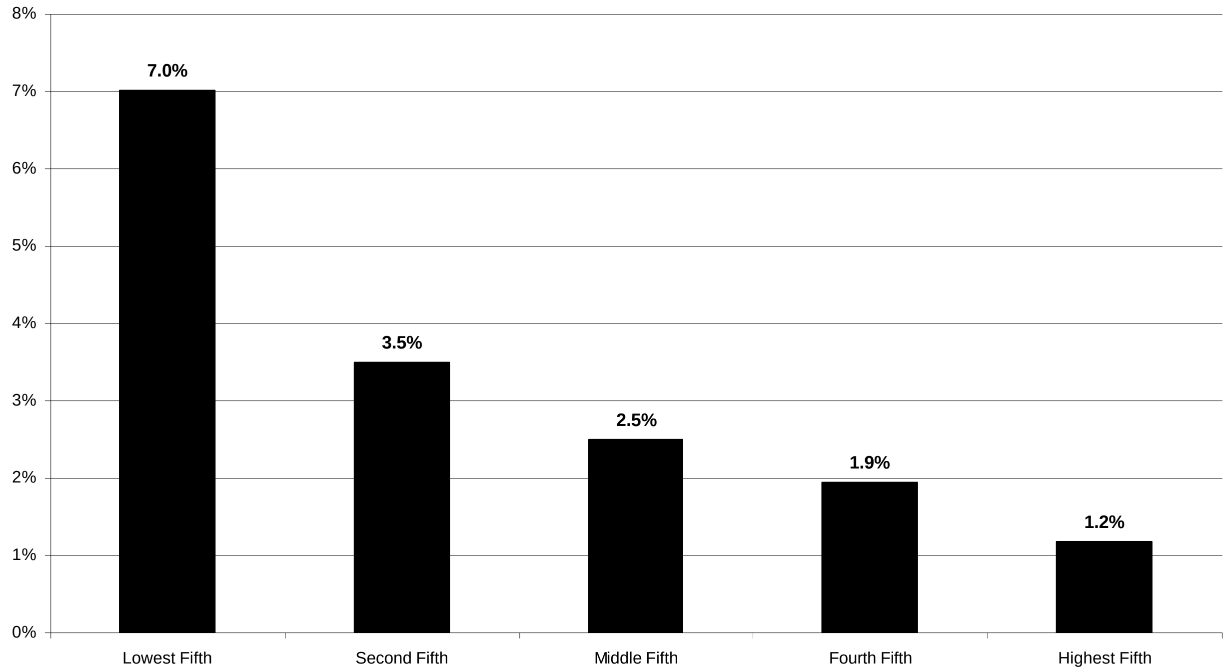
- A surcharge that supports the Universal Lifeline program. This fee is imposed at a rate of 1.1 percent of intrastate charges.
- A fee to support the Deaf and Disabled Telecommunications Program. This fee is imposed at a rate of 0.3 percent of intrastate charges.
- Two fees to subsidize the cost of service in high cost areas totaling 2.37 percent of intrastate charges.
- A surcharge to support the California Teleconnect Fund to support discounted telecommunications services for qualifying schools, libraries, hospitals, and community-based organizations. This surcharge is imposed at a rate of 0.16 percent.[8]

Who Would Pay?

Nationally, low-income households pay a larger share of their income for telephone service than do higher-income households (Figure 1). Some fraction of expenditures by low-income households would be exempt from the surcharge, since the proposed surcharge does not apply to "lifeline" service. The surcharge would, however, apply to long-distance and mobile services provided to low-income households. In order to qualify for "lifeline" service, a household's income cannot exceed $20,100 (one or two persons); $23,700 (three persons); or $28,400 (four persons).[9] The California Public Utilities Commission estimates that 96.5 percent of eligible households participate in the lifeline program.[10]

Data suggests that businesses would pay a slight majority of the surcharge. Nationally, residential customers pay 48.6 percent of local telephone service charges and 46.0 percent of long distance charges.[11]

Figure 1: Percentage of Consumer's Pre-Tax Income Spent on Telephone Services, 2002 (US)



Source: Bureau of Labor Statistics, Consumer Expenditure Survey

How Would Proposition 67 Funds Be Treated in the Budget Process?

Proposition 67 revenues would be treated in the following manner:

- ***Proposition 67 funds would not be subject to the regular budget process.*** All revenues would be automatically appropriated. This means that the funds would not be subject to appropriation by the Legislature through the regular budget process. As a result, it would be difficult to make changes to the allocation of funds even if program needs and priorities change.

- ***Proposition 67 funds could not be used to supplant existing funds.*** The funds could not be used to generate budget savings by replacing existing state or county funds.

- ***New revenues would not increase Proposition 98's school-funding guarantee.*** Proposition 67 excludes the new revenues from the calculation used to determine the state's minimum school-funding obligation. This provision means that the new monies would not increase the minimum school-funding guarantee established by Proposition 98 of 1988.

- ***New revenues would not be subject to the State Appropriations Limit.*** Proposition 67 excludes the new revenues from the State Appropriations Limit (SAL). The SAL places a limit each year on the amount of monies that can be spent from state tax proceeds.[12]

Proposition 67 Locks in a New Set of Spending Obligations Outside the Budget Process

Proposition 67 would create a new set of spending obligations, with a new dedicated funding source, outside the budget process. This raises some policy considerations:

- ***How should funds be allocated?*** Proposition 67 specifies that certain percentages of the proposed new revenues be used for various purposes related to emergency care. If the need in a certain area increases or decreases substantially relative to another, adjusting the allocation percentages would require subsequent voter approval or a four-fifths vote of the Legislature.

- ***How should existing funds be treated?*** Proposition 67 would lock in a portion of Proposition 99 funds currently used to support emergency room physicians and community clinics. However, overall Proposition 99 revenues have decreased and are likely to continue to decrease due to the decline in tobacco use. The state could have to reduce other programs that rely on Proposition 99 funding or find other sources of funding for those programs if Proposition 67 earmarks a portion of the Proposition 99 funds.[13]

- ***What oversight should be provided?*** Proposition 67 would allocate the funds outside of the budget process to various state departments. While Proposition 67 creates a commission whose members would be appointed by the Governor and the Legislature to have some oversight for reimbursements to physicians, the initiative does not specify an oversight mechanism for other aspects of the initiative.

What Do Proponents Claim?

Proponents claim that Proposition 67 is essential to maintain emergency medical care in California. They argue that the funds will help:

- Keep hospital emergency rooms, trauma centers, and health clinics open and operational;
- Prevent long lines and wait times at local emergency rooms;
- Attract and retain highly skilled physicians, nurses, and medical staff at local emergency rooms and trauma centers;
- Provide critical emergency medical equipment and technology;
- Support local health clinics that treat non-emergency patients and preserve emergency rooms for real emergencies;
- Equip and train firefighters and paramedics who are often the first to respond and provide medical care in emergencies; and
- Upgrade the 911 emergency telephone system.[14]

What Do Opponents Claim?

Opponents claim that the measure is a significant tax increase:

> "California already has some of the highest taxes in the country. Just when our economy is starting to bounce back, this huge, half-billion-dollar tax increase could *harm businesses, hurt seniors, and gouge consumers – damaging our economy*. With no cap on cell phones or businesses, the more you talk, the more taxes you have to pay."[15]

Conclusion

Proposition 67 would provide new funding for emergency care, trauma care, and other services by increasing the surcharge on intrastate telephone calls. These funds would be appropriated and allocated outside of the regular budget process. On the one hand, the initiative would ensure that the funds are only used for specified purposes. On the other hand, the initiative locks in the allocation of the new funds and the use of existing funds for similar services. Also, the initiative includes limited oversight for the new funds. In assessing Proposition 67, voters should consider how these issues might affect policy outcomes.

ENDNOTES

[1] The current surcharge rate is 0.72 percent.
[2] Legislative Analyst's Office analysis of Proposition 67, downloaded from http://www.ss.ca.gov/elections/bp_nov04/public_display/10_pub_dsply_prop_67b.pdf on August 10, 2004.
[3] California HealthCare Foundation, *California's Emergency Departments: System Capacity and Demand* (April 2002), p. 1.
[4] Proposition 99, passed by the voters in 1988, allocates revenues from an increase in taxes on tobacco products to various health, environmental, and research programs. Counties may establish a Maddy Emergency Medical Services Fund to reimburse physicians who provide uncompensated emergency and trauma care, reimburse hospitals that provide disproportionate trauma and emergency services, and fund other emergency services as determined by counties. The Maddy Emergency Medical Services Fund consists of penalties imposed by counties on individuals who commit certain criminal offenses.
[5] Proposition 67 would require each county to establish a Maddy Fund, which is optional under current law.
[6] California Public Utilities Commission, per Assembly Bill AB 1575: Telecommunication Utility Tax Rates Levied by California Cities & Counties (February 17, 2004), downloaded from http://www.cpuc.ca.gov/static/industry/telco/consumer+information/surcharges+and+taxes/ab1575xr.xls on August 6, 2004.
[7] California Public Utilities Commission, *Surcharges/Taxes/Forms*, downloaded from http://www.cpuc.ca.gov/static/industry/telco/consumer+information/surcharges+and+taxes/index.htm on August 6, 2004.
[8] The 2004-05 Budget eliminated the authority to reimburse telecommunications companies for these discounts; it is not clear whether the surcharge will continue to be imposed. See http://www.cpuc.ca.gov/static/industry/telco/public+programs/aug022004_lettertocarriertosuspendctf.doc.
[9] The "lifeline" program provides discounts on flat-rate local telephone service, subscriber line charges, and measured local telephone service. The income eligibility limit is higher for larger households.
[10] California Public Utilities Commission, *Report to the Legislature on Universal Telephone Service to Residential Customers* (July 16, 2004), downloaded from http://www.cpuc.ca.gov/PUBLISHED/REPORT/38173.htm on August 6, 2004.
[11] US Bureau of the Census, *Table 3.3.9: Telecommunications (NAICS 5133) – Estimated Local, Long-Distance, and Network Access Revenue by Type of Customer and Type of Service for Employer Firms: 2001 Through 2002* (no date), downloaded from http://www.census.gov/svsd/www/sas513.pdf on August 9, 2004.
[12] Legislative Analyst's Office, *The State Appropriations Limit* (April 13, 2000), p. 1. "Tax proceeds in excess of the SAL over a two-year period must be equally split between rebates to taxpayers and expenditures on education."
[13] The state also uses Proposition 99 funds for other health-related programs such as tobacco education and prevention, environmental protection, and health care for low-income individuals. The Governor's Proposed 2004-05 Budget included $332.7 million in total Proposition 99 revenues.
[14] California Secretary of State, *Official Voter Information Guide – Public Display*, downloaded from http://www.ss.ca.gov/elections/bp_nov04/public_display/10_pub_dsply_prop_67c.pdf on August 11, 2004.
[15] California Secretary of State, *Official Voter Information Guide – Public Display*, downloaded from http://www.ss.ca.gov/elections/bp_nov04/public_display/10_pub_dsply_prop_67e.pdf on August 11, 2004.

Agnes Lee and Jean Ross prepared this Brief. The California Budget Project (CBP) neither supports nor opposes Proposition 67. This Budget Brief is designed to help voters reach an informed decision based on the merits of the issues. The CBP was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, publications, and individual contributions.