



To: CPCA Members
From: CPCA Policy Team
Date: January 8, 2010
RE: Brief Analysis of Governor's 2010-11 Budget

GENERAL OVERVIEW

Since this is the seventh and final budget Governor Schwarzenegger is releasing before he departs from public service and goes back to the lights and big screen of Hollywood, it is easy to see how he used his love of movies to help craft this disastrous budget. First, looking at our State's dwindling economic plight, and then promising to protect education, he ascertained that "It's Complicated"...fair enough. Second, he lined up health and human services, the prisons, state workers and, his favorite, local government and hit them again in their "Blindside". Lastly, he wrapped up a \$21 billion deficit hinged on begging (the Feds), borrowing (taxpayers) and stealing (everyone), and might as well call it "Avatar"...which can mean "incarnation of evil". Movies aside, this is a \$82 billion budget, which is \$20 billion less than the budget the Governor proposed when he took office in 2004. Of course, the drastic reduction reflects California's devastating economic plummet; however it also accounts for the billions and billions of cuts the Governor has inflicted on every Californian by taking every health, social service, education, local government, transportation and public safety programs to its bare bones.

This year's proposed budget is no different including \$8.5 billion in cuts, \$4.5 billion in "revenue shifts" and \$6.9 billion in additional money from the federal government. Some of the highlighted non-health cuts are:

- **Local Government** – The budget would rescind the State's current 6 percent sales tax on a gallon of gasoline, and replace it with a 10.8-cent increase in per-gallon excise taxes. The Administration estimates that it would be a 6 cent reduction in gas prices. But why cut rather than raise the tax??? Because the switch would allow the state to legally cut the money it must currently pay to local governments for transportation programs and to schools.
- **State Workers** – Due to a recent court ruling that furloughs are essentially "illegal", the Governor found a way to reduce the costs associated with state-workers. The budget requires California's 200,000 state worker to go back full-time, but all must take a 5 percent pay cut, as well as all state departments must reduce their payroll by 5 percent through hiring people at lower salaries and, of course...layoffs. Additionally, there will be another 5

percent pay cut triggered if the federal government does not come through with the necessary funds.

- **Prisons** – The budget would cut \$1.2 billion in prison spending through reductions in medical costs for prisoners. This reduction could trigger even more legal battles with federal judges and a court-appointed federal receiver who are overseeing California’s prison health system.
- **Education’s “Brass”** – The Governor did keep his promise and protect elementary and high school programs, however that pledge did not apply to the school administrators who are facing a \$1.2 billion cut in the proposed budget.

Furthermore, the Governor declared, yet another, fiscal emergency that will require the Legislature to cut \$6.6 billion in the current year spending within the 45 day deadline. If the Legislature fails to act before February 22, then all legislative business, other than budget, will be suspended.

HEALTH & HUMAN SERVICES OVERVIEW

As mentioned, the Governor’s budget includes \$8.5 billion in reductions, \$2.9 billion of which is to Health & Human Services (HHS), and an additional \$3.5 billion cut to HHS if California does not get a major infusion of federal funds. The Administration believes several major HHS programs, such as Medi-Cal, In-Home Supportive Services (IHSS), Developmental Services, and California Work Opportunity and Responsibility to Kids (CalWORKS), are significant General Fund (GF) cost drivers and thus are proposing deep reductions to HHS programs, even as demand for many of these programs and services continue grow.

Of the cuts to HHS, there are significant proposed reductions to programs relied upon by community clinics and health centers (CCHCs), including \$750 million from Medi-Cal by implementing cost containment measures, making newly legal immigrants ineligible for Medi-Cal, elimination of the Adult Day Health Center program (ADHC), reductions to Family PACT rates, Healthy Families, EPSDT, among others.

Also of significant concern is the "Trigger" initiative contained in this budget. This Trigger could instigate a series of devastating program eliminations and reductions if the federal government does not provide significant resources by July 15 2010.

It is important to remember that the Governor’s budget is simply a proposal submitted by the Schwarzenegger Administration to the Legislature. The Legislature will have the opportunity to propose its own initiatives and proposals for a balanced budget. As we know from past years, this will likely be a painful and lengthy process over the next several months.

TRIGGER REDUCTIONS

Trigger Reductions and Revenues

The Governor's proposals request approximately \$6.9 billion in federal funding/spending reductions, which will be outlined below. If these levels of revenue/savings are not achieved, the Governor has proposed a variety of additional budget solutions that would be "triggered". These

solutions include program cuts, which are proposed as permanent cuts, and reimbursement revenue, which is one time only. The spending cuts included in the trigger total (\$4.6 billion in General Fund) and include:

- Reduction of Medi-Cal Eligibility to Federal Minimum Level
- Elimination of FPACT Program
- Elimination of Most of the Remaining Optional Benefits
- Elimination of the Healthy Families Program
- Fund Existing Mental Health Services with Proposition 63 Funding
- Eliminate Various Health Programs Under Proposition 99 including EAPC
- Eliminate the Breast and Cervical Cancer Treatment Program

To reiterate, this “Trigger” concept has been proposed by the Administration and needs to be adopted by the Legislature in order to be implemented. As mentioned previously, under this concept, the Department of Finance has to determine by **July 15, 2010** whether the necessary federal funds have been secured. *IF* the “trigger” is pulled the following reductions would go into effect:

Reduction of Medi-Cal Eligibility to Federal Minimum Level

Medi-Cal eligibility would be reduced to the minimum allowed under current federal law. Federal law generally requires the following groups to be eligible for Medicaid:

- Low-income families participating in CalWORKs,
- Seniors and people with disabilities participating in the Supplemental Security Income (SSI) program, and
- Pregnant women and children with family incomes below specified levels.

Optional populations include those enrolled as “presumptively eligible”, low-income 19 and 20 year old children, new legal permanent resident children and adults, and infants above 133 percent of the federal poverty level. If the Administration is able to limit Medi-Cal eligibility to the federal minimum level, over 1 million low-income Californians including hundreds of thousands of children would lose coverage.

Elimination of FPACT Program

According to the Secretary of Health and Human Services, the Family Planning, Access, Care and Treatment (FPACT) program will be eliminated if the trigger is allowed to be pulled. FPACT provides services for 1.65 million women and men annually. California receives \$9 from the federal government for every \$1 the state spends on the FPACT program.

Elimination of the Remaining Optional Benefits

All Medi-Cal programs are required to provide certain benefits including Federally Qualified Health Center services, EPSDT, and pregnancy-related services. States can also receive federal matching funds for providing other “optional” Medicaid/Medi-Cal services. Last year, the Administration eliminated various critical Medi-Cal services including adult dental, psychology, optometry, acupuncture, and podiatry. The Administration is threatening to eliminate most of the remaining “optional” Medi-Cal services if significant federal funds are not secured. Some of the remaining services that are currently being threatened include:

- Medical equipment and supplies
- Prosthetics
- Hearing Aids

- Targeted case management
- Physical therapy
- Rehabilitation for mental health and substance abuse
- Hospice
- Occupational Therapy

The Administration has mentioned that prescription drug benefits would not be eliminated.

Elimination of the Healthy Families Program

The Healthy Families program includes approximately 1 million low-income children. If the Administration is allowed to pull the trigger because insufficient federal funds are secured, these children would lose their health insurance coverage and would join California's growing ranks of the uninsured.

Fund Existing Mental Health Services with Proposition 63 Funding

The Administration is also threatening to eliminate funds for mental health services by limiting expenditures for existing mental health services to Proposition 63 funding.

Eliminate Various Health Programs Under Proposition 99

If the trigger is pulled, \$115 million in Proposition 99 funding would be eliminated including all Proposition 99 funding for the Expanded Access to Primary Care Program. In Fiscal Year 08-09, EAPC received \$14 million in Prop 99 funding. This amount was reduced in Fiscal Year 09-10 to \$10 million. The remaining \$10 million would be eliminated if the trigger was pulled.

Eliminate the Breast and Cervical Cancer Treatment Program

If the trigger is pulled approximately 9,000 people would not be able to access breast and cervical cancer treatment due to the elimination of the Breast and Cervical Cancer Treatment Program.

Federal Funding Sought to Avoid Pulling the Trigger

In order to prevent the above described reductions from being implemented, the Administration seeks to secure \$6.9 billion in additional federal funding in order to fill part of the budget deficit. Perhaps the most difficult ask to the federal government will come in the form of an increase in the Federal Medical Assistance Percentages (FMAP) or federal financial participation rate from 50 percent to 57 percent. The Governor's Office explains that this increase to 57 percent will bring California's federal match in line with the ten most populous states and the nationwide FMAP average. If the FMAP is increased to 57%, California will save \$1.8 billion. Another \$2.132 billion will be saved by extending current American Recovery and Reinvestment Act (ARRA) funding to California. This includes extending the ARRA FMAP increase (currently an 11.59 percent increase to the base percentage) through June 30, 2011 (set to expire December 31, 2010) and other ARRA funding through the 2010-11 fiscal year such as \$538 million for CalWORKs, \$26.8 million for California's Foster Care and Adoptions Assistance programs, and \$20.8 million for Child Support. An additional \$1 billion is sought from the federal government for state expenditures for Medicare Part D and disabled individuals eligible to enroll in Medicare.

Federal funding sought outside the Department of Health and Human Services include \$1 billion in special education funding and at least \$879.7 million funding to offset the "full cost" of incarcerating criminal undocumented immigrants.

DEPARTMENT OF HEALTH CARE SERVICES (DHCS) – Medi-Cal

The Trigger Concept described above does not present the only threat outlined in the Administration's proposed budget. The Administration also proposes significant reduction in services for Fiscal Year 2010-11 including:

Cost Containment in the Medi-Cal Program

The Administration proposes to save \$750 million by implementing various cost containment strategies. The strategies will include a combination of (1) limits on services and utilization controls, (2) increased cost-sharing through co-payment requirements, premiums, or both, and (3) other programmatic changes. The Administration has not provided information on the specific strategies that will be pursued, but have mentioned utilization control mechanisms such as requiring authorization for the number of days a beneficiary can stay in the hospital, authorization for filling more than six prescriptions per month and imposing hard caps on services beyond which it will not reimburse a provider.

According to the Administration, it hopes to secure maximum flexibility to impose new or enhanced utilization controls by seeking federal approval of a state plan amendment (SPA) to establish these limits.

Medi-Cal for Adult Newly Qualified Immigrants

The Administration proposes to **eliminate full-scope Medi-Cal for adult Newly Qualified Immigrants** (legal immigrants who have been residing in the US less than five years), except pregnant women, and immigrants Permanently Residing Under the Color of Law (PRUCOL), and Amnesty Immigrants who are not defined as eligible Qualified Immigrants under federal law. This reduction will result in a general fund savings of \$118 million. This proposal would take effect March 1, 2010, but savings would not be realized until June 2010 because of implementation times and notification requirements. This budget cut will have a significant impact on clinics. Many legal immigrants covered by Medi-Cal and currently receiving care at CCHCs will no longer come in for visits because of the drop in coverage and the requirement to participate in the sliding fee scale. Those that continue to be seen will now be uninsured and may not be able to pay the sliding fee scale amount.

Eliminate Optional Adult Day Health Care Benefits

The Administration proposes a decrease of \$104 million as a result of the elimination of the optional adult day health care benefit. This proposal would take effect March 1, 2010, but savings would not be realized until June 2010, because of provider and beneficiary notification requirements and the timing associated with related cash payments in Medi-Cal. This elimination applies to all ADHCs, including FQHC and RHC ADHCs. Last year the Administration proposed the same elimination of the ADHC program. At that time, the elimination to the ADHC program would have resulted in most FQHC/RHC ADHCs closing. As of 2009, there were over 650 ADHCs in California; five

FQHC ADHC providers operating eleven of the sites and one site operated by an RHC. Combined, the FQHC/RHC ADHCs serve approximately 1,600 participants. The comprehensive, high quality, and integrated care provided at these health centers cannot be furnished without funding. Last year, the closure of these facilities will result in approximately 240 FQHC/RHC ADHC participants moving into Skilled Nursing Facilities (SNF) within three months. This move was estimated to cost the State \$6.5 million (\$13.4 million¹ with the federal match) in the first year.

Medi-Cal Anti-Fraud Initiative

The Administration proposes a decrease of \$26.4 million (including the associated support costs) resulting from the Department of Health Care Services' aggressive targeting of fraud in high - priority areas, such as pharmacy, physician services, transportation, and medical equipment.

Medi-Cal Managed Care Expansion

The Administration proposes an increase of \$54.9 million for managed care expansion into Ventura, Mendocino, Lake, Madera, and Kings Counties. Madera and Kings Counties will be partnering with Fresno County, which already has a Medi-Cal managed care delivery system.

Medi-Cal Checkwrite Delays

The Administration proposes a decrease of \$55 million by deferring one weekly payment to institutional providers including community clinics and health centers. This week will be in addition to the current permanent one week checkwrite delay in June. The previously enacted 2009 budget authorized the Governor to delay payments up to two weeks prior to June 2009.

Nursing Home Fees – Quality Assurance Fee

As part of the Administration's General Fund policy adjustments, they propose to reauthorize the nursing home Quality Assurance Fee. The Quality Assurance Fee, which is used to reimburse facilities for providing long-term care skilled nursing services to Medi-Cal beneficiaries, sunsets on July 31, 2011. In the months leading to the May Revision, the Administration will work with stakeholders on reauthorization of this fee. No direct impact to CCHCs.

Improving Health Care Coordination and Controlling Long-Term Medi-Cal Costs

Annual savings of \$800 million (\$400 General Fund) estimated to be achieved by 2012-13 through reforms being developed as part of California's Section 1115 Medicaid Waiver renewal process. The current waiver entitled *Medi-Cal Hospital/ Uninsured Care Demonstration*, which restructured the state's hospital financing system and created the Health Care Coverage Initiative, expires on August 31, 2010. The next waiver will seek to utilize managed care or other specialized delivery systems of care to better serve high-cost vulnerable populations, including seniors and persons with disabilities, children with significant medical needs, and individuals with behavioral health problems. By providing appropriate care and enhanced care coordination, the State expects savings due to reductions in emergency room visits and inpatient services utilization. The Department of Health Care Services will be convening a Stakeholder Advisory Committee over the next eight months to guide the development of the waiver proposal, which must ultimately be approved by the Centers for Medicare and Medicaid Services.

DEPARTMENT OF HEALTH CARE SERVICES (DHCS) – Clinic Programs

The Expanded Access to Primary Care Program and other Traditional Clinic Programs

The Administration proposes to **take \$36 million in Proposition 99 (Cigarette and Tobacco Products Surtax Fund) reserves for a one-time offset to Medi-Cal costs.** Additionally, the 2010 Budget also contains \$25 million from the available special funds to replace one-time 2009-10 savings (from a change in payment methodology) made available from the Access for Infants and Mothers (AIM) Program to meet anticipated demands for health care in 2010-11. CPCA does not believe either the Expanded Access to Primary Care (EAPC) Program or Every Woman Counts (EWC) Program are included in this one-time shift. EAPC and EWC are included in the trigger category under the reductions proposed in Proposition 99.

Because the Governor is working from the budget allocations implemented in the last fiscal year, including the reductions he imposed at the end of the budget process. In the July 2009, the Governor blue penciled the General Funds allocated to the Rural Health Services Development Program, the Seasonal Agricultural Migratory Worker Program and the Indian Health Program, which led to a lawsuit questioning this exercise of the Governor's blue pencil authority. The lawsuit remains unresolved at this point and therefore, it is likely that the Governor's proposed budget does not include any General Fund allocation for these programs. We will be confirming this information with DHCS.

MANAGED RISK MEDICAL INSURANCE BOARD

Reduce Healthy Families Program Eligibility

The Administration proposes a decrease of \$10.5 million in 2009-10 and \$63.9 million in 2010-11 by reducing program eligibility from 250 percent to 200 percent of the federal poverty level. This proposal would align California's eligibility standards with the standards in most other states, and take effect May 1, 2010, after appropriate provider and beneficiary notification. A conforming \$3.9 million decrease also results in the California Children's Services program for beneficiaries who were previously eligible under the Healthy Families program. Last year the Administration proposed the same reduction, estimated to save the state \$54.5 million. At that time, approximately 225,000 children (of the 906,000 enrolled in Healthy Families) would no longer be eligible to receive health coverage through the program. We estimate that the additional \$20 million in savings indicated will result in a significant increase in the number of children being disenrolled from the program.

Reduce Healthy Families Program Benefits and Increase Premiums

The Administration proposes a decrease of \$21.7 million by eliminating vision coverage and increasing monthly premiums in families with incomes from 151 percent to 200 percent of the federal poverty level by \$14 per child or \$42 maximum increase per family with 3 or more children (from current \$16 per child or \$48 maximum per family premiums — the lowest income families under 150 percent of poverty would not have a premium increase). These proposals are consistent with what other states have done and would take effect July 1, 2010, after appropriate provider and beneficiary notification. Late last year, as a result of the budget gap in the Healthy Families Program, MRMIB approved emergency regulations to increase premiums, with an estimated savings of \$5.5 million. We estimate that this increase in cost to low-income families will make the Healthy Families Program unaffordable, and will result in many children and families dropping coverage.

OTHER ISSUES CRITICAL TO CCHCs

AIDS Drug Assistance Program (ADAP)

The Administration proposes a decrease of \$37.7 million from the AIDS Drug Assistance Program (ADAP) Rebate Fund to avoid a shortfall and maintain a prudent reserve. The ADAP Rebate Fund is made up of rebates paid to the state by the manufacturers of the drugs provided to HIV/AIDS patients under the program. This is an administrative change and does not impact the programs and services provided through ADAP. No direct impact to CCHCs.

Another General Fund policy adjustment includes a decrease in \$9.5 million by eliminating AIDS Drug Assistance Program (ADAP) services to county jails. No direct impact to CCHCs.

Community Mental Health Services

The Administration proposes a reduction of \$452.3 million in General Fund and substitute Mental Health Services Act (Prop 63) funding for a portion of the EPSDT program and a portion of the County-run Mental Health Managed Care program. This would require amending Proposition 63's non-supplantation and maintenance of effort provisions and requires voter approval. It is anticipated this initiative will be included in the June 2010 election. As you will recall, a similar redirection effort (Proposition 1E) failed in 2009. The budget proposal also includes a decrease in Mental Health Services Act local assistance of \$405.9 million, which is a technical adjustment to reflect updated county resource plans.

California Children and Families Act of 1998 (Prop 10) Funds Redirection

The Administration proposes a reduction of \$550 million in General Fund through a redirection of Proposition 10 funding from the California Children and Families Commission budget to high-priority state programs serving children. The redirected funds will be used to support children enrolled in programs administered by the Department of Social Services and the Department of Developmental Services. Implementation of this proposal will require voter approval, and it is anticipated this initiative will be included in the June 2010 election.

Children's Health Coverage

The Administration proposes a decrease of \$240 million from available proceeds (\$80 million per quarter from April 2009 until December 2010) authorized in law from newly enacted hospital fees. This is in addition to \$320 million reflected in the budget as a workload adjustment. Last year the Administration signed into law AB 1383 that would have provided \$80 million per quarter for children's Medi-Cal coverage through 2010. This proposed decrease in funding will remove almost half of the projected revenue that would have been provided to children's health coverage.

Additional Changes

- Regional Centers reductions:
 - \$61.6 million additional savings associated with the proposal already developed by stakeholder process
 - \$60.9 million by extending the 3% provider payment reduction through 2010-11
 - \$52.5 million by the expansion of consumer services associated with a 1915(i) amendment to Medicaid State Plan
 - \$25 million in additional program reforms to be developed by the existing stakeholder process

- Substance Abuse Offender Treatment Program reduction of \$18 million by eliminating the entire program.
- Clinical Laboratory Inspections increase of \$3.4 million to the Clinical Laboratory Improvement Fund to comply with the provisions of Chapter 201, Statutes of 2009.

HUMAN SERVICES REDUCTIONS

In- Home Supportive Services IHSS

The Governor reintroduces his 2009 May Revision proposals; two of which Federal court injunctions have prevented the implementation of and the third has had certain components enjoined by a state court.

- Reducing services by: (1) limiting domestic and related services (housework, shopping and errands, and meal preparation and clean-up) to only those individuals assessed to have the greatest need for those services, and (2) providing services to only those individuals with greater needs based on an assessment of their ability to function within 11 activities of daily living (estimated to save \$493 million [\$123 million General Fund] annually).
- Reducing state financial participation in the cost of IHSS worker wages and benefits from \$12.10 per hour to \$10.10 per hour (estimated to save \$353 million [\$88 million General Fund] annually).
- Implementing rigorous anti-fraud efforts that require: (1) all providers to attend an orientation, obtain a background check, and be fingerprinted during 2009-10, (2) IHSS recipients to be fingerprinted, (3) timesheets to be signed under a statement acknowledging that false timesheets are subject to civil penalties, and (4) fingerprints of both the recipient and provider on timecards. In addition, this reform generally disallows provider checks from being sent to post office box addresses, and authorizes case reviews, targeted mailings, and unannounced home visits (estimated to save \$521 million [\$130 million General Fund] annually).
- Reduce state participation in IHSS worker wages/benefits from \$10.10 per hour to \$8.60 per hour effective June 1, 2010.
- Eliminate IHSS services for recipients with Functional Index scores below 4.00 (weighted average of ability to perform various activities of daily living) effective June 1, 2010. This would eliminate services to 87 percent of IHSS recipients, or about 426,733 people, effective June 1, 2010.

The Governor's proposals for IHSS assume that the state prevails in litigation for both subjects – reductions based on functional need of the consumer and the reduction in the level of state participation in wages.

CalWORKs

Beginning in 2011-12, the following long-term reforms (which are estimated to result in annual savings of \$600 million) become effective:

- Restructuring time limits by requiring the adults in families that have received aid for a cumulative 48 months within a 60-month period to “sit out” and not receive aid for 12 months.

- Requiring all non-exempt recipients who are not meeting work requirements to meet face-to-face twice a year for a review with county workers.
- Strengthening the sanction process for adults who do not comply with program requirements by progressively decreasing the family's monthly grant if the adult continues to refuse to comply.
- Eliminating the statutory requirement to provide an annual cost-of-living adjustment (COLA), beginning with the July 2010 COLA.

The Administration proposes the following reductions to CalWORKs:

- Reduce monthly grant payments by 15.7 percent. With this reduction, California's grant level would be reduced to the average grant amount of the ten states with the highest cost of living (which is \$585 per month, including California).
- Reduce the reimbursement level for both licensed and exempt child care providers.
- Eliminate the Recent Non-citizen Entrants program, which provides CalWORKs benefits to legal immigrants who have been in the United States for less than five years.

Additional Changes:

- SSI/SSP reduction of \$21.8 million in 2009-10 and \$285.1 million in 2010-11 by reducing grants for individuals by \$15 per month and eliminating the Cash Assistance Program for Immigrants. Effective date June 1, 2010.
- California Food Assistance Program (CFAP) reduction of \$3.8 million in 2009-10 and \$56.2 million in 2010-11 by eliminating the entire program, which provides benefits to legal immigrants not eligible for federal Food Stamp benefits. Effective Date Jun 1, 2010.