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State Budget Bulletin

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Brown's Budget Proposes Painful Cuts Affecting Low-Income Californians

Revenue Solutions Also Proposed As Part of the Mix

Newly-elected Governor Jerry Brown unveiled his proposed budget for the 2011-12 fiscal year. His budget proposes \$12.5 billion in spending cuts, \$12 billion in revenue extensions and changes, \$1.9 billion in other "budget solutions" and a \$1 billion reserve. The plan addresses an 18-month budget gap of \$25.4 billion, which includes a current year deficit of \$8.2 billion and a budget year (July 1, 2011-June 30, 2012) deficit of \$17.2 billion.

On the revenue side, Brown proposes a ballot initiative to maintain the state's current tax rates for an additional five years and uniformly apply the single sales factor income allocation rules to certain corporate taxpayers. There are also some one-time savings and borrowing, including: \$1.8 billion in borrowing from special funds, \$1.7 billion in property tax shifts, \$1.0 billion from Proposition 10/First Five reserves, and \$0.9 billion from Proposition 63 moneys to fund community mental health services.

Realignment

Brown's realignment proposal would transfer responsibility for administering and paying for several types of services to counties, including mental health services, substance abuse services, child welfare services, adult protective services, and several functions in Corrections and CalFire. For the health and human services programs, Brown proposes that the state would continue to be the single agency for data collection and auditing, but would ultimately reduce the administering state agencies by 25 percent. These programs would be funded through an extension of the Vehicle License Fee (VLF), sales tax increases implemented in 2009, and through a ballot initiative to use \$861 million in Mental Health Services Act (Proposition 63) funds. This is Phase One of Brown's Realignment Proposal.

Under Phase Two, the state would become responsible for costs associated with health care programs, including California Children's Services and In-Home Supportive Services (in addition to Medi-Cal for childless adults as required federally by the Affordable Care Act), and the counties would assume responsibility for CalWORKs, CalFresh administration, child support and child care programs. Public health programs would remain at the local level.

Human Services

Governor Brown proposed a 25% cut to the CalWORKs program funding — a full \$1.5 billion in cuts that would eliminate more than 115,000 families from all cash aid. While it would repeal damaging CalWORKs proposals approved in 2009, it would replace them with even more damaging provisions in some cases.

CalWORKs

- **"Rigid" 48-month time limit for assistance.** After 48 months on aid (applied retroactively) all families who are not meeting federal work participation requirements would lose assistance unless they meet one of the following time limit exemptions:
 - ▶ family living in Indian country where at least 50 percent of the adults are not employed;
 - ▶ families with a pregnant or parent minor, *not* the head of household;
 - ▶ families that only receive non-cash assistance under the Welfare-to-Work program;
 - ▶ families in which a parent is receiving Supplemental Security Income; and,
 - ▶ families in which eligible children are residing with non-needy caretakers.

All other statutory exemptions to the time clock (e.g. those for victims of domestic violence) would no longer apply. According to DSS 147,000 households will hit the 48 month time limit and 115,000 would lose all cash aid during 2011-12. The state cuts \$698.1 million by doing this.

- **"Modified" Safety Net.** The same 48-month time limit would apply to the Safety Net and, apparently, to Child-Only cases. The only exception is if the adult is meeting work participation, but even in this case the family would receive a child-only grant level. According to DSS, 52,000 families in the two safety nets have exceeded the 48-month time limit and 36,000 would lose all aid in 2011-12. This number appears to be a subset of the overall number of families affected by the new time limit.
- **13% Grant Cut to CalWORKs Grants.** All grant levels would be reduced by 13%. The maximum grant for a family of three would fall from \$694 a month to \$604 a month. According to DSS, CalFresh benefits would increase by \$27 a month on average. The state cuts \$405 million by doing this. (Note: The current maximum grant for a family of \$694 is the same as the state provided in 1989. The average CalWORKs grant currently of about \$503 a month would be reduced by \$65, to about \$438 a month. A cut to the CalWORKs grant reduces the number of families meeting work participation, making the state more likely to receive a federal penalty.)
- **No Extension of Exemption to Work Requirements.** Current law, set to expire at the end of June 2011, exempts families with children up to 23 months old from work requirements. These exemptions would be allowed to expire, meaning that these families have to meet work requirements by July of this year.
- **\$376 Million Reduction in the County Single Allocation Fund.** This reduction is equal to the reduction given to counties when the exemption to work requirements was put into law. While the young child exemptions are ended, counties would be required to reduce even without the law. It is unclear how counties would achieve these reductions.
- **\$1.5 Billion Shift of Welfare Funding to Other State Purposes.** The budget proposes to shift nearly \$1 billion in TANF funds to the Student Aid Commission to pay for CalGrants and to reduce General Fund spending by the same amount. The budget also proposes to reduce

state spending on CalWORKs by \$533 million and count existing state spending in other state programs towards the state's MOE requirement. While states have some flexibility to spend TANF outside of welfare and to meet MOE as proposed, in general, the expenses must meet one of the four TANF purposes. DSS was unable to provide a summary of the MOE cost shifts at this writing.

- **Repeal of ABX4 8.** This legislation, passed in July of 2009 and set to go into effect in July 2011, is proposed to be repealed. ABX4 8 made imposed new self-sufficiency reviews and cut grants to children grants by up to 50%. The repeal, however, is replaced by the above list of new proposals – some of which are more damaging than ABX4 8.

Child Care

- **Restoration of Stage 3.** The Governor proposes to restore Stage 3 child care in April, but with new cost sharing provisions for families who are in higher cost child care programs. The proposal does not address what families will do until April.
- **48-Month Time Limit on CalWORKs.** The budget proposes to realize \$34 million in child care savings from imposing time limits in CalWORKs, likely from families that are getting child care but not meeting work requirements after 48 months.
- **Elimination of Child Care for 11- and 12-Year-Old Children.** This proposal will cut \$716 million from Department of Education child care programs and \$34 million from CalWORKs.

SSI/SSP

- **\$15-a-Month Grant Cut to SSI Benefits.** The budget proposes to reduce the maximum SSI grant for families from \$845 a month to \$830 a month, the federal minimum. Cash Assistance Program for Immigrants (CAPI) grants, not proposed for elimination this year, would be reduced by \$15 a month for individuals. State cuts would amount to \$177 million from the blind, aged and disabled. Cash Assistance Program for Immigrants (CAPI)

CFAP

- **California Food Assistance Program.** No cuts are proposed.

Health

The budget proposes \$1.7 billion in cuts to Medi-Cal which serves 7.7 low-income Californians and \$39 million in cuts to Healthy Families which serves some 900,000 children. The Governor also proposed some mechanisms in the health care arena to secure federal funding. Proposals include:

- **Restricting Services in Medi-Cal.** This proposal places a maximum annual dollar amount on equipment such as hearing aids, durable medical equipment, urological supplies, incontinence supplies, and wound care. Beneficiaries would not be able to receive more than six prescription drugs per month (except for life-saving drugs). Lastly, beneficiaries would be limited to ten physician visits per year. Savings are calculated at \$217.4 million.
- **Requiring Beneficiary Cost-Sharing. Restricting Access to Services and Imposing Cost-Sharing.** Beneficiaries would have to pay co-pays of \$5 for physician, clinic, dental, and pharmacy services (\$3 for lower-cost preferred drugs). The co-pay for emergency room services would be \$50 and \$100 a day with a \$200 maximum for hospital stays. These co-

pays would apply to all beneficiaries in the Medi-Cal program and would be mandatory meaning doctors could refuse to services if the beneficiary could not afford the co-pay. Altogether, this would amount to \$557.1 million cut from Medi-Cal.

- **Eliminating Over-the-Counter Cough and Cold Medicine and Nutritional Supplements.** A \$16.6 million cut from the current level.
- **Eliminating the Adult Day Health Care Program.** \$176 million cut.
- **Reduce Medi-Cal Provider Rates by Ten Percent.** This would reduce by ten percent the amount paid to physicians, pharmacies, clinics, medical transportation, home health, Adult Day Health Care providers, certain hospitals, and nursing facilities. A \$709.4 million cut.
- **Extend the Existing Hospital Fee.** A fee on hospitals is used to leverage federal Medi-Cal funding would be extended. This would account for revenue of \$160 million.
- **Eliminating the Healthy Families Vision Benefit.** This would affect all Healthy Families beneficiaries. \$11.3 million cut.
- **Increasing Premiums for Some Healthy Families Beneficiaries.** For families at or above 150 percent of the federal poverty level (FPL, \$33,075 annually for a family of four), their monthly premiums would increase. For families between 150-200% of FPL, their premiums would rise from \$16 to \$30 per month per child. Families between 201-250% of FPL would see their premiums rise from \$24 to \$42 per child per month. This proposal would affect 565,000 children, almost two-thirds of Healthy Families enrollees, for a state savings of \$22.2 million.
- **Increase Healthy Families Co-Pays.** All children in the program would be charged \$50 per emergency room visit and \$100 per day for inpatient hospital stays up to a maximum of \$200 per visit, for savings of \$5.5 million.
- **Continue Collection of Taxes on Managed Care Plans.** Like the Medi-Cal hospital fee, California taxes managed care organizations and uses these funds to leverage additional Medi-Cal federal dollars. This supports Healthy Families coverage. This accounts for a savings of \$97.2 million.

Housing

The budget proposes to eliminate all existing redevelopment agencies on July 1. A successor agency or agencies (as yet undetermined) would be charged with fulfilling existing contractual and bond obligations, but no new debt could be issued, nor any project areas created, extended, or expanded. Public housing authorities would be responsible for existing balances in Low- and Moderate-Income housing funds. The proposal is silent on a number of important issues. Localities would be given authority to do locally-funded development.

Creation of affordable housing through redevelopment has always been a mixed bag. Although approximately \$1 billion is theoretically available each year, the lowest-income families have not been served as the economy has worsened. Some agencies have not created much housing, as the budget document itself pointed out. Western Center will have a seat at the table as the redevelopment proposal is fleshed out.

As noted above, the budget also proposes to shift Prop. 63 funding to existing programs. This will result in a loss of housing dollars for mentally-ill homeless persons, an original component of Prop. 63.