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California's protection and advocacy system

California State Budget Overview March 13, 2009

The information in this document discusses the state budget and the reductions to services and cash assistance used by Californians with disabilities.

The special session budget is intended to modify the FY 08-09 budget and provide framework for the FY 09-10 budget. The budget relies on a number of approaches to achieve a more balanced budget; some of the approaches will need to be approved by the voters in a May 19, 2009 special election. The ballot measures that affect the disability community are discussed in a separate document.

The core budget approaches are: increased taxes, reductions in spending, use of federal stimulus funds and redirection of funds from some dedicated funding sources such as the Mental Health Services Act and Proposition 10.

Increases in Revenue and Spending Cap

The budget plan included a number of tax increases that are scheduled to remain in effect for about two years unless they are extended as a result of the proposed Spending Cap. The Spending Cap needs to be approved by the voters on May 19, 2009 and is also known as Proposition 1A.

Specifically, the tax increases include:

- **Increases in Sales and Use Tax.** This is charged on the purchase of goods. The budget package raised the tax by one cent for every dollar of goods purchased. This raised the average sales and use tax rate in the state from about 8 percent to 9 percent through 2010-11. The specific tax rates will vary from county to county as counties also have the authority to increase sales tax.
- **Increases in the Vehicle License Fee (VLF).** The VLF is based on the value of a vehicle and is paid annually as part of an owner's registration. The budget package raised the tax rate from 0.65 percent to 1.15 percent of a vehicle's value through FY 2010-11.

- ***Increases in Personal Income Tax (PIT).*** The PIT is based on an individual's income. Tax rates range from 1 percent to 10.3 percent depending on a taxpayer's income. Higher tax rates are charged as income increases. Numerous exemptions and credits may be applied to an individual's income to lower the amount of the tax owed. The budget package raises each tax rate by a 0.25 percentage point.

This tax rate increase will be reduced by one-half if it is determined by April 1, 2009 that the state will receive a certain level of federal funds to help balance the state budget.

The budget plan also reduces the amount of the tax credit for dependents, such as a child.

Tax Increases Extension

The tax increases are linked to the Spending Cap, (Proposition 1A) and will be extended one to two additional years if the Spending Cap is approved. The Spending Cap will limit state spending to the last 10-year revenue trend. Amounts above the 10-year trend would go into the Budget Stabilization Account (or rainy day fund) along with the currently required 3% of General Fund revenues.

If the Spending Cap passes, the tax increases included in the February 2009 budget package would extend for one or two additional years.

- The sales tax increase of 1 cent would be extended for one year through 2011-12.
- The VLF tax increase would be extended for two years through FY 2012-13.
- The personal income -related tax increases would also be extended for two more years, through the 2012 tax year.

Overall, state tax revenues would increase by about \$16 billion from 2010-11 through 2012-13.

Reductions in Spending/Cuts to Services

The budget includes a series of cuts that will go into effect in February or March. In addition to these cuts, additional cuts will go into effect July 1 unless the Department of Finance and State Treasurer certify in a public hearing before the Joint Legislative Budget Committee that California will receive at least \$10 billion in federal stimulus funds which can be used to offset general fund costs by June 30,

2010. It is unclear at this point if the \$10 billion benchmark will be met because only certain federal stimulus dollars can offset General fund.

We identify below the reductions in spending/cuts to services for the major programs that serve Californians with disabilities. For each major area, we identify the reductions that will occur and those additional reductions that will occur if there is not adequate federal stimulus money. In addition, we identify the cuts the legislature did not make that were originally proposed in the Governor's budget.

Of note, the budget assumes the passage of a number of Propositions which will allow dedicated funds to be redirected. If the Propositions do not pass, there will be additional shortfalls which will need to be made up either through additional budget cuts or increased taxes.

Supplemental Security Income/State Supplementary Program

Budget Reductions

- Suspends the pass-through of the federal SSI cost-of living adjustment (COLA) effective on May 1, 2009. This will bring monthly benefit amounts down to the December 2008 level. This will result in General Fund savings of \$79.8 million in 2008-09 and \$487.3 million in 2009-10.
- Suspends the June 2010 state SSP COLA (the SSP is the state's share of the SSI/SSP benefit amount), as proposed in the Governor's Budget, resulting in General Fund savings of \$27.0 million in 2009-10 and \$323.9 million annually beginning in 2010-11.

See the chart at the end of the Memo for specific SSI/SSP grant levels.

Additional Reductions if Inadequate Federal Dollars

- Reduces SSI/SSP grant levels in effect on December 1, 2008 by 2.3 percent, effective July 1, 2009. This would reduce the monthly grant for individuals by \$20 and the monthly grant for couples by \$35 and would result in General Fund savings of \$267.8 million in 2009-10. Exempt from this reduction are recipients living in Non-Medical Out-of-Home Care, such as board and care facilities, as well as those receiving a Restaurant Meal Allowance. Individuals who self-certify that their living arrangement prevents the preparation of meals at home receive the Restaurant Meal

Allowance. It is a state-funded supplement to their SSP grant. This supplement is \$84 for individuals and \$168 for couples per month.

Cuts the Legislature Did Not Approve

- The final budget rejects the Governor's proposal to reduce the state's share of the SSI/SSP grants, known as SSP to the federal minimum amount. Specifically, the grants would have been reduced to a maximum of \$156 per month for individuals and \$396 per month for couples, effective May 2009.

Mental Health

Budget Cuts

- The Budget reduces by \$17 million in General Funds the amount provided for capital outlay projects for the State Hospitals.

Other Assumptions

- The budget assumes voter approval on May 19, 2009 of Proposition 1E, amendments to the Mental Health Services Act (MHSA) of 2004, which would allow a transfer of \$226.7 million from MHSA funds in 2009-10 for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program, in lieu of General Fund support. For 2010-11, a total of up to \$334 million in MHSA funds would be used for this purpose.

Cuts the Legislature Did Not Approve

- The approved budget provides \$226.7 million from the General Fund for the Mental Health Managed Care Program in 2009-10 which is a change from the Governor's January Budget which proposed cuts to this program.

Medi-Cal Program

Budget Reductions

- The budget eliminates the cost-of-doing-business paid to the counties for them to conduct Medi-Cal eligibility processing as an agent for the state. This proposal by the Governor results in a reduction of \$49.4 million (\$24.7 million General Fund) in 2009-10.

- It reflects funding necessary to implement AB 1183, which requires the DHCS to adjust Medi-Cal rates effective March 1, 2009. Generally, this action reflects an overall one percent reduction to Fee-For-Service Medi-Cal rates and a five percent reduction for pharmacy providers and certain long-term care providers. (This is different than the proposed 10 percent rate cut contained in the first budget extraordinary session.)
- It assumes implementation of Adult Day Health Care reforms as proposed by the Governor, including unbundling the rate into its component services, tightening medical necessity criteria, performing post-payment reviews of participant charts, and changing reimbursement to a prospective cost-based methodology, for savings of \$34 million (\$17 million General Fund).

Other

- The budget includes an increase of \$365.6 million (total funds) to reflect a five percent rate increase for certain nursing homes (i.e., those reimbursed under the AB 1629 process) effective as of August 1, 2009.

Additional Reductions if Inadequate Federal Dollars

- Deletes \$258.8 million (\$129.4 million General Fund) in funding for certain Medi-Cal Optional Benefits as proposed by the Governor. This is identical to the earlier administration proposal and would eliminate adult dental services, acupuncture, chiropractic services, speech and audiology services, optometry services, optician/optical laboratory services, podiatry services, psychology services, incontinence creams and washes.
- Deletes \$54.2 million (federal funds), or 10 percent, from certain public hospitals and safety net care hospitals and uses these funds to backfill for General Fund expenditures in the California Children Services Program, the Medically Indigent Adult-Long Term Care Program, and the Genetically Handicapped Persons Program as proposed by the Governor.

Developmental Services

Budget Reductions

- The final budget reduces by 3 percent certain payments for services delivered from February 1, 2009 to June 30, 2010. This reduction results in a

reduction of \$40.4 million (\$24.1 million General Fund) in 2008-09 and \$100.8 million (\$60.2 million General Fund) in 2009-10.

- The final budget also reduces by \$100 million (General Fund) the amount appropriated for Regional Centers which is *in lieu* of the Governor's proposed reduction of \$334 million (General Fund).
 - Trailer bill legislation proposes for the Department of Developmental Services to proceed with a stakeholder process to identify how to most effectively achieve this savings while maintaining access to high quality services for individuals with developmental disabilities.
 - The trailer bill language also contains a "trigger" mechanism which would further reduce the payments made to providers by an additional 7.1 percent, effective as of September 1, 2009, if the stakeholder process does not achieve success.
- The final budget adopts the Governor's proposal to reduce Regional Center Operations by \$6.6 million (\$4.6 million General Fund) in 2008-09 and \$17.4 million (\$12.2 million General Fund) in 2009-10 by suspending several administrative and case management requirements in existing law from February 1, 2009 to June 30, 2010.

Other Assumptions

- The budget assumes voter approval of amendments to the California Children and Families Act of 1998, also known as Proposition 10, tobacco tax, Health and Human Services Fund. If passed, these changes would provide \$265 million to be spent for the Early Start Program, which services high-risk infants up to the age of three, in lieu of General Fund support.

In-Home Supportive Services (IHSS)

Reductions if Inadequate Federal Dollars

- Eliminates the state's share of cost contribution to new IHSS consumers who come on the program after July 1, 2009 and who have income greater than SSI.

While most IHSS consumers receive Medi-Cal services at no personal cost because of their low income, some IHSS recipients with higher family income

may also become eligible by paying a share of cost for the services. They spend down to the SSI level, currently \$870/month for an individual. The state “buys out” the difference between that SSI level and the Medi-Cal income eligibility level of \$600 per month.

The original share of cost (SOC) buyout was enacted in 1998 and was designed to allow people with very low incomes to receive IHSS without any out-of-pocket expense for the program. This would be eliminated for new IHSS consumers; they would be required to pay a share of cost of up to several hundred dollars to become eligible for IHSS.

Example: Mr. Jones, a retired janitor, is 81 and survives on Social Security and a small pension, which total \$1,350 per month. He does not have any housing subsidy and pays \$750 per month for a small apartment. Under this cut, he will have to pay \$480 out of his pocket for the help he needs. He uses that money now for food, utilities and transportation to medical appointments. If he cannot pay that share of cost because he cannot afford it, Mr. Jones will lose his eligibility for IHSS.

- Limits state participation in the wages of IHSS workers to up to \$9.50 per hour plus up to \$0.60 per hour for individual health benefits. This will result in General Fund savings of \$74.2 million in 2009-10. IHSS wages and benefits are split among the federal government, the state and the counties. Currently the state pays its share of those costs up to a wage of \$12.10 per hour. If this cut happens, and counties do not make up for the decreased state share, most IHSS workers would see a pay cut, which could lead to people leaving that job for other better-paying work, decreasing the availability of workers for IHSS consumers. It could also lead to more workers going on public benefits and some IHSS consumers being unnecessarily institutionalized.

Cuts the Legislature Did Not Approve

The Legislature rejected the proposals in the Governor’s Budget to restrict non-medical services to only those IHSS recipients with the highest level of need, to eliminate the state’s share of cost contribution for IHSS recipients with lower levels of need, and to limit state participation in the wages of IHSS workers to the state minimum wage.

Education

Budget Reductions

- The final budget amount in 2008-2009 for Proposition 98 education funding is 55.7 billion. This includes 2.4 billion in program reductions for the current year. The total funding provided for 2009-2010 is 55.3 billion, 400 million less than the amount provided in 2008-2009
- The final budget allows for some flexibility with categorical funding which will give education agencies the ability to take money specified for one program and use it for another education program and temporarily waives some requirements such as class-size reduction.
- The final budget rejects funding cuts and categorical flexibility to some programs, including the categorical funding provided for special education.

Other Assumptions

- It assumes voter approval of amendment to Proposition 98 (Proposition 1B) to allow \$9.3 billion to be paid back to education agencies over several years, beginning in 2011.

Other Programs

Cuts the Legislature Did Not Approve

- The final budget rejects the Governor's proposal to eliminate the **Cash Assistance Program for Immigrants (CAPI)**, which provides benefits equal to SSI/SSP for legal immigrants who would be otherwise eligible for SSI/SSP except for their immigration status.
- The final budget also maintains **California Food Assistance Program (CFAP)**, rejecting the Governor's proposal to eliminate CFAP, which provides food benefits to low-income, legal non-citizens.
- The final budget rejects the Governor's entire proposal to eliminate over 500,000 people from receiving vital **health care services within the Medi-**

Cal program. This action restores \$485.1 million (General Fund) to the program to continue eligibility. The Governor’s proposal included:

- rolling back eligibility for working families eligible under the 1931 (b) program by redefining under-employment;
- rolling back eligibility for aged, blind and disabled individuals; changing to a month-to-month eligibility for individuals without documentation; and
- rolling back eligibility for legal immigrants and individuals permanently residing under the color of law (PRUCOL) by providing emergency services only to these individuals.

Other Assumptions

- The budget redirects an additional \$68 million in Proposition 10 (California Children and Families Act of 1998) tobacco tax funding to the Department of Social Services (DSS) to offset an equal amount of General Fund cuts in Child Welfare Services, foster care, and the Adoption Assistance Program. The Governor’s Budget already includes \$275 million in Proposition 10 funding to DSS (and corresponding General Fund savings) for these purposes.

SSI/SSP Grant Levels Table

Here are the SSI/SSP grant levels for some categories of recipients:

SSI/SSP Grant Levels				
	Dec 1, 2008	Jan 1, 2009	May 1, 2009	July 1, 2009 No trigger
Individual/ Independent Living/ Aged or disabled	\$870	\$907	\$870	\$850
Married couple/ Independent Living/ Aged or disabled	\$1,524	\$1,579	\$1,524	\$1,489
Non-medical out-of-home care facility	\$1,049	\$1,086	\$1,086	\$1,086