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The Governor's Short-Term Budget Plan "More Details Later"

Welcome back for another year of *California Budget Report*. This is our sixth year of publication and we appreciate all the comments and suggestions from readers.

As most of you budget wonks know, the Governor released his January budget today. The press conference began at 11 a.m. but most wonks were busily looking at the paper posted on the Department of Finance website and receiving "heads up" calls from Department heads or budget documents from legislative staff.

You can read the full budget at www.dof.ca.gov, and we will have a more refined discussion soon. However, here is a fast look at what appears to be the major solutions proposed by the Governor to solve the immediate fiscal problem. Whatever their merit, many appear to only be delayed payments or other kinds of one-time funding.

Of course, most of the proposals will require legislative action in order to take effect. This list does not include such things as the Proposition 98 suspension, and other controversial measures.

The major cash management solutions proposed are as follows:

- \$3.313 billion: Sell Economic Recovery Bonds by the end of February 2008. Proposition 57 authorizes the sale of these bonds. Therefore, no legislative action is needed to achieve this cash flow solution in time to avoid a problem in March.
- \$1.300 billion: A two-month delay in disbursement of deferred apportionments for K-12 schools and community colleges.
- \$814 million: A two-month delay in disbursements for programs in the Department of Social Services.
- \$584 million: Split the STRS Supplemental Benefit Maintenance Account payment and delay the payment from July to November and April.

\$500 million:	A one-to-five-month delay in gas tax disbursements for local streets and roads, increasing borrowable resources.
\$454 million:	A delay of the four weekly checkwrites for Medi-Cal fee-for-service institutional providers in August until September.
\$400 million:	A delay of \$400 million in advances to regional centers.
\$400 million:	Reduction in 2007-08 Proposition 98 overappropriation.
\$232 million:	A one-month delay in the Medi-Cal Managed Care Plan payment and Delta Dental Plan payment.
\$200 million:	A two-month delay of the mental health managed care program advance.
\$165 million:	A delay in disbursement for Medi-Cal fee-for-service checkwrite from June to July.
\$164 million:	A one-to-two-month delay in making first quarterly payment to counties for Medi-Cal administration.
\$92 million:	A two-month delay in the quarterly advance to counties for the Early and Periodic Screening, Diagnosis, and Treatment Program.
\$113 million:	Other changes.

Health Care Cuts Hurting

Beyond the cash management strategies is the promised 10 percent cut across all agencies and departments. We haven't analyzed the entire budget to determine how evenly that was spread, but from the looks of it, even the health care community—which the Governor has been working with closely on his health care reform proposal—wasn't spared. Though eligibility for programs was not cut—something that would contradict the goals of ABX1 1 (Nunez), the health care reform bill still pending in the Senate—cuts to provider rates and benefits and a host of other changes has the health care community reeling. Below are some highlights:

- \$1.1 billion in General Fund savings from the Medi-Cal program by cutting the following:
 - provider rates 10 percent
 - managed care plan rates 10 percent
 - rates for some long-term care facilities
 - non-contracting hospital rates
 - public hospital funding
 - optional benefits including chiropractic, incontinence creams and washes, acupuncture, audiology, optometry, opticians, optical labs, podiatry, speech therapy and psychology
 - other administrative costs through reinstating quarterly status reports and other changes

- \$76.5 million in General Fund savings from Mental Health Services by cutting rates for therapists and other mental health professionals and rates for county mental health managed care programs serving Medi-Cal.
- \$41.9 million in General Fund savings in Healthy Families by reducing health plan rates by 5 percent, limiting the annual benefit for dental coverage to \$1000, increasing copayments for non-preventive services for families with incomes over 150 percent of the Federal Poverty Level and increasing monthly premiums for families with annual incomes above 150 percent of the FPL.
- \$28.1 million in General Fund savings in the Department of Alcohol and Drug Treatment by reducing provider rates by almost \$12 million in 2008-2009 and reducing current year rates by \$2.5 million, reducing funding to counties by 10 percent, cutting Drug Court by \$3.1 million, cutting Offender Treatment by \$2 million and cutting the methamphetamine initiative by \$1 million.
- \$11 million in General Fund Savings in the Office of AIDS by eliminating from the AIDS Drug Assistance Formulary certain classes of drugs and by reducing support for local programs providing education, prevention, counseling, testing, early intervention, therapeutic monitoring, community-based care, epidemiological surveillance and housing.

With the exception of the increased copayments for Healthy Families, copayments and eligibility did not change for these programs. But the cuts to provider and plan rates will have these groups out in force. Many providers had just, after years of working, secured small but needed increases in rates and others were still suffering under the state's payment rates, which in some programs or for some providers amounted to less than a third of the usual and customary rate for the service in the private market.

So expect a contentious and difficult budget process!

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