



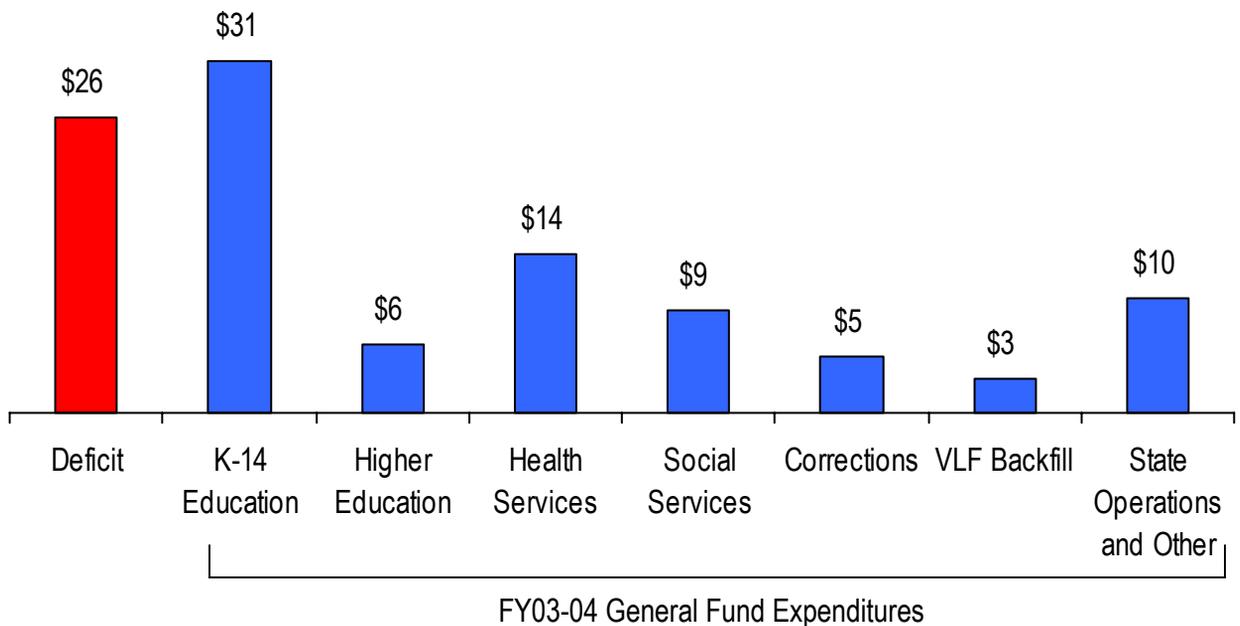
Impact of Proposed Budget for 2004-05 on Medi-Cal and Other Health Programs

January 14, 2004

1. How Large Is the Current Budget Gap?

- ❖ California's \$26 billion deficit reflects a \$9 billion year-end deficit in FY02-03, a current year (FY03-04) shortfall of \$3 billion, and budget year (FY04-05) shortfall of \$14 billion.
- ❖ The budget deficit is equal to one-third of the estimated \$78 billion General Fund expenditures in FY03-04.

Deficit Compared to FY03-04 General Fund Expenditures (in billions)

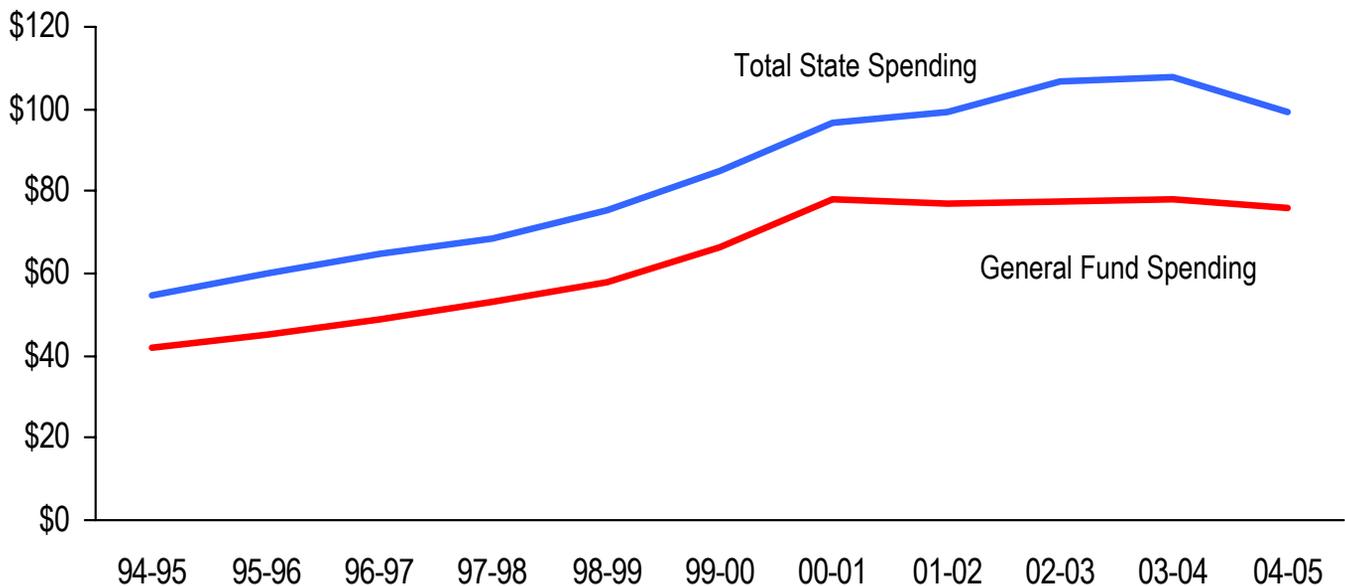


Sources: Governor's Budget Summary 2004-05 and LAO's Major Features of 2003 California Budget.

2. How Does the Proposed Budget Compare With Past Budgets?

- ❖ Under the governor's proposed budget, total state expenditures for FY04-05 would drop to \$99 billion from \$108 billion in FY03-04, a decrease of 8 percent.
- ❖ State expenditures increased 98 percent from FY94-95 to FY03-04. By comparison, the state population grew 14 percent and total personal income grew 63 percent over the past ten years.
- ❖ State expenditures per \$100 of personal income reached an all-time high of \$9.24 in FY02-03. The governor's proposed budget for FY04-05 would decrease this amount to \$7.83. The average since FY79-80 is \$8.07.

General Fund and Total State Expenditures, FY94-95 – FY04-05 (in billions)

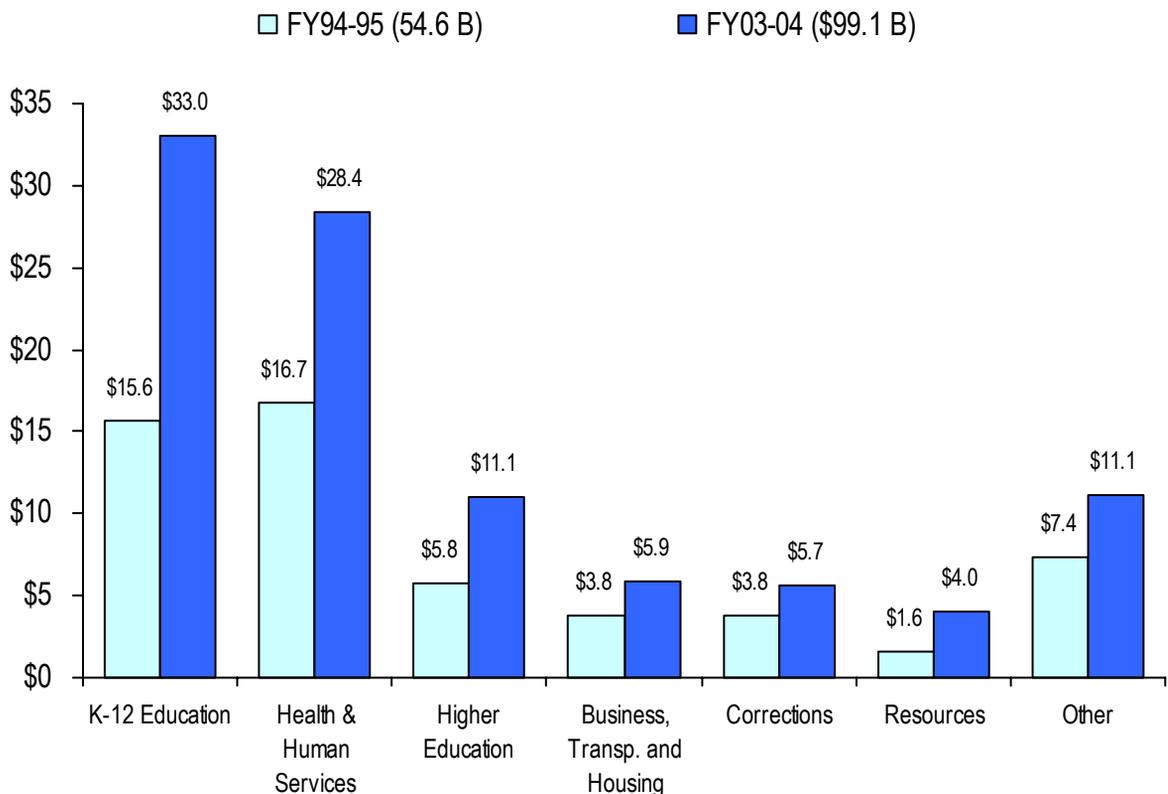


Note: Total state spending includes General Fund, Bond Fund, and Special Fund expenditures.
Sources: Governor's Budget Summary 2004-05, Schedule 6.

3. How Have Program Expenditures Changed?

- ❖ Over the past decade, state expenditures have increased faster than the growth of Personal Income (61 percent) in four areas: Resources (158 percent), K-12 Education (111 percent), Higher Education (92 percent), and Health and Human Services (70 percent).
- ❖ State expenditures have grown least over the past decade for Corrections (50 percent), Business, Transportation, and Housing (55 percent), and other areas of government combined (51 percent).

Comparison of Total State Expenditures by Program in FY94-95 and FY03-04 (in billions)



Note: The Resources Agency includes departments of fish and game, forestry and fire protection, parks and recreation, water resources, and conservation. Among the programs included in Other are General Government, Environmental Protection, Labor and Tax Relief.

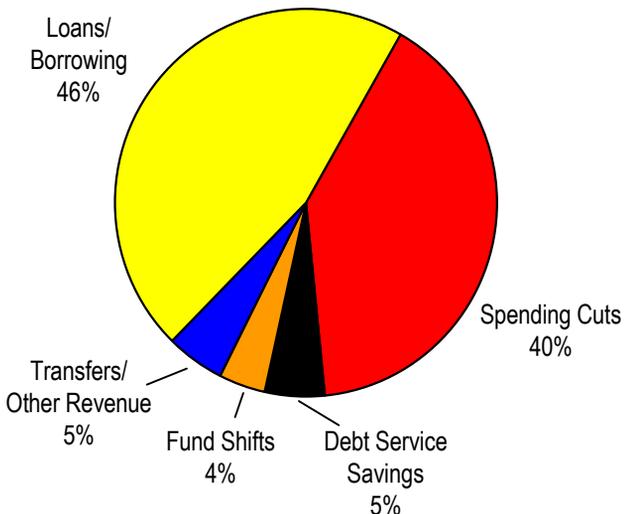
Source: California Department of Finance, Chart C-1

4. How Does the Governor Propose Closing the Budget Gap?

- ❖ The governor's proposed solution to close a \$26 billion budget gap relies mostly on borrowing (\$12 billion) and reductions in program spending (\$11 billion). A combination of fund shifts, debt service savings, transfers, and other revenues are used to close the remaining \$3 billion gap.
- ❖ Compared to Governor Davis, Governor Schwarzenegger relies more on borrowing, less on spending cuts, and not at all on tax increases to balance the budget.

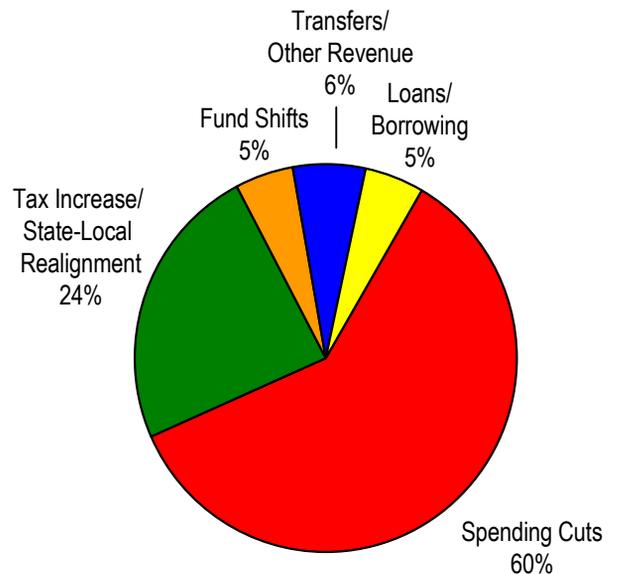
Governor Schwarzenegger 2004-05 Budget

Proposed Solution to Close \$26 Billion Gap



Governor Davis 2003-04 Budget

Proposed Solution to Close \$35 Billion Gap



Notes: Spending Cuts in 2004-05 includes solutions characterized as Cost Avoidance and Pension Reform Package.

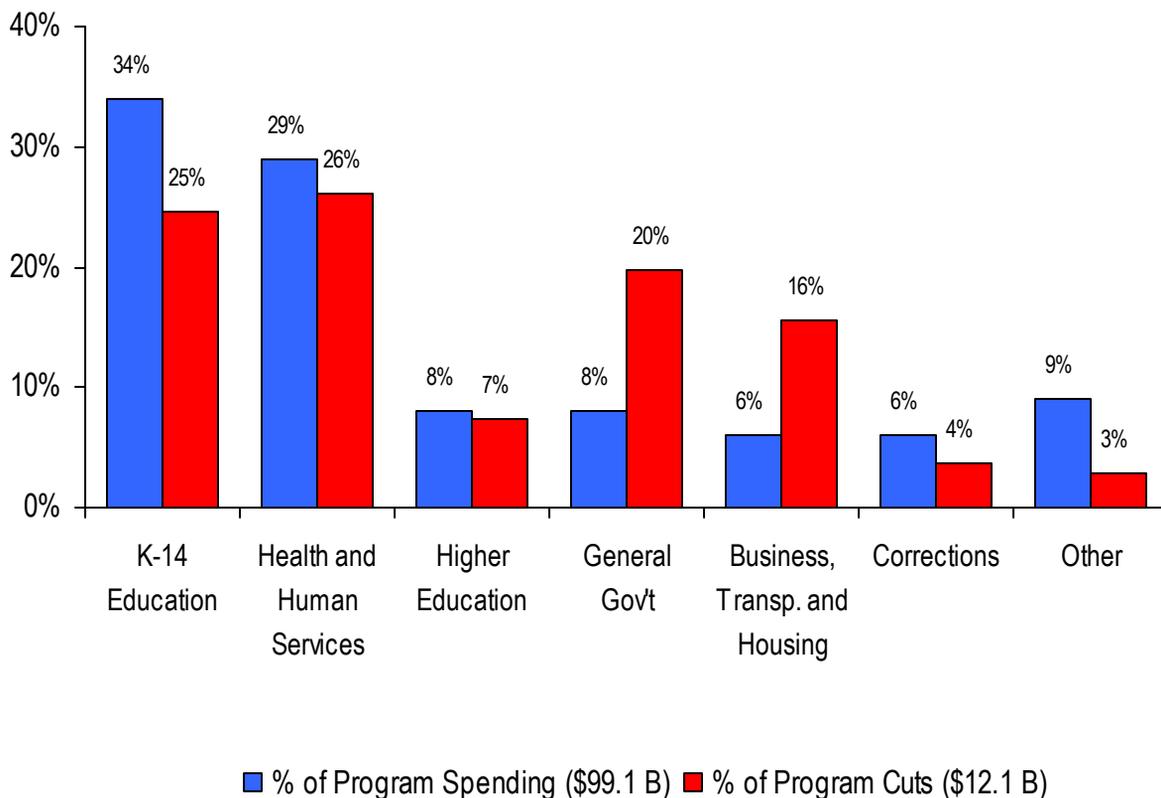
Loans/Borrowing includes \$12.3 billion of Economic Recovery Bonds.

Sources: Governor's Budget Summary 2003-04 and Governor's Budget Summary 2004-05.

5. How Are Spending Cuts Distributed?

- ❖ Health and Human Services is targeted for the largest spending reduction in dollar terms (\$3.1 billion) among major programs, followed by K-14 Education (\$3.0 billion), General Government (\$2.4 billion), and Business, Transportation, and Housing (\$1.9 billion).
- ❖ Among those areas affected disproportionately – where the share of program cuts exceed the share of program spending – are General Government and Business, Transportation, and Housing.

Distribution of State Spending and Proposed Spending Reductions

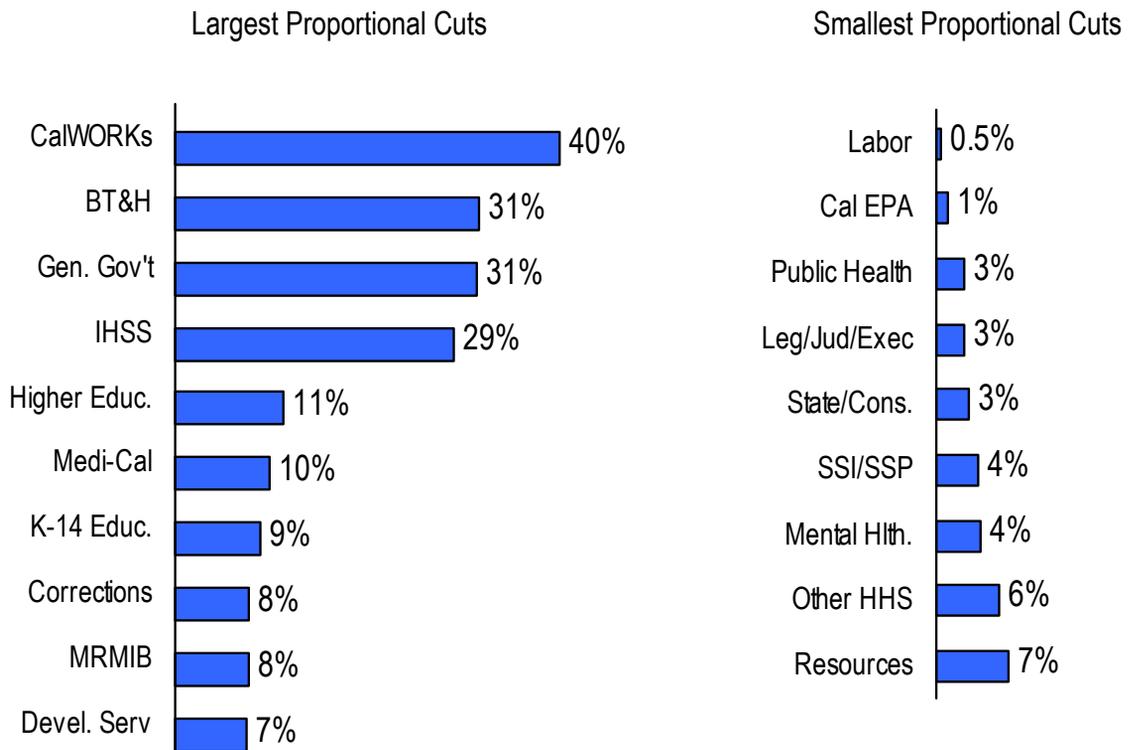


Source: Governor's Budget Summary, 2004-05

6. Which Programs Are Hardest Hit?

- ❖ Spending reductions relative to program budget are greatest for CalWORKs, the state's cash assistance program for families. Also among the hardest hit are the budgets for Business, Transportation, and Housing (BT&H), General Government, and In-Home Support Services (IHSS).
- ❖ Programs for which spending cuts were the smallest as a proportion of the program's budget include Labor, Environmental Protection, Public Health, Legislative/Judicial/Executive, and State and Consumer Services.

Proposed Spending Cuts As A Proportion of the Program's Budget for FY04-05



Notes: Spending cuts include proposed reductions for both the current year (FY03-04) and budget year (FY04-05). The Managed Risk Medical Insurance Board (MRMIB) operates several health programs, including Healthy Families, California Children's Services (CCS), Access for Infants and Mothers (AIM), the state's high risk pool, and other programs.

Source: Governor's Budget Summary, 2004-05

7. What Spending Reductions Are Proposed for Health and Related Programs?

Savings Initiatives of \$20 million or More

FY04-05 General Fund Savings (Millions)

Medi-Cal

Reduce provider rates by additional 10 percent	\$462.2
Major programmatic reform (unspecified Eligibility and Benefit reductions)	\$400.0
	beginning FY05-06
Impose "Quality Improvement Fee" on Medi-Cal Managed Care Plans	\$75.0
Revise rate methodology for health centers (FQHCs and RHCs)	\$32.2
Reduce interim rates by 10 percent to cost-reimbursed acute care hospitals	\$31.0

In-Home Supportive Services

Eliminate funding for services provided by parent and spouse caregivers	\$365.8
Reduce state funding for wages and benefits	\$98.0
Eliminate certain services in shared living situations	\$26.3

Other

Regional Center Cost Containment	\$100.0
Cap enrollment in Children's Medical Services programs (CCS and GHPP)	\$43.0
Adjust rates for outpatient Mental Health services to reflect actual costs	\$40.0
Cap enrollment in Healthy Families	\$31.5
Narrow EPSDT Medical Necessity Criteria	Unspecified
	beginning FY05-06

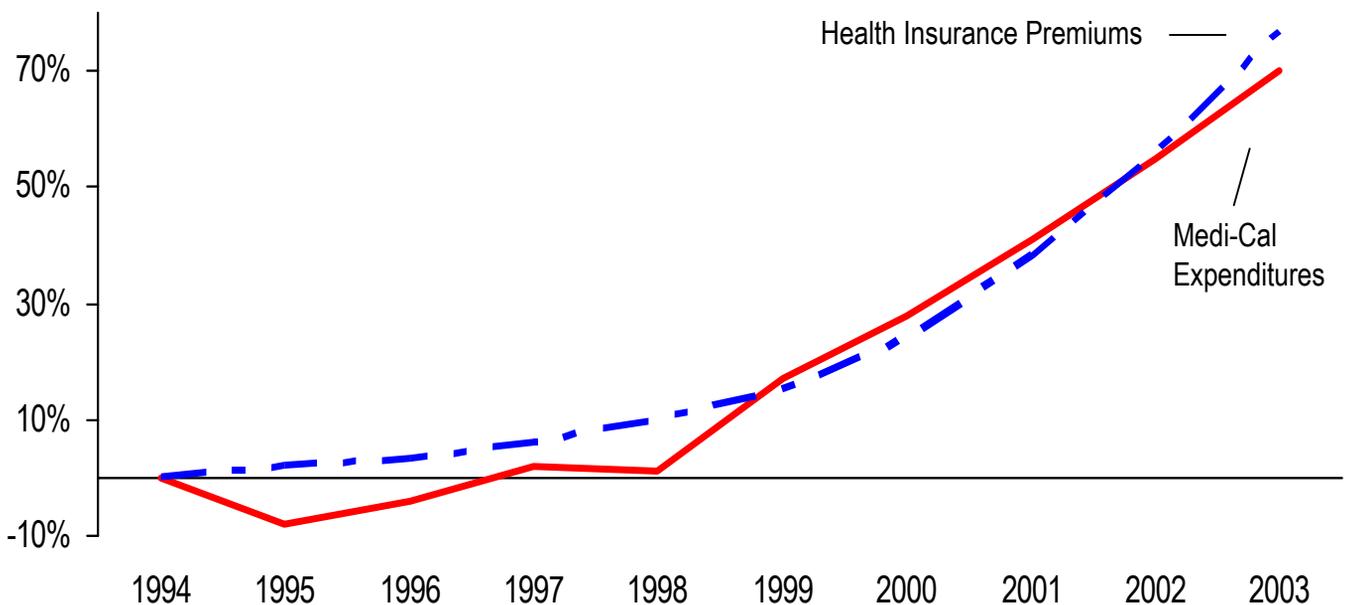
Notes: Acronyms listed above include: Federally Qualified Health Center (FQHC), Rural Health Center (RHC), California Children's Services (CCS), Genetically Handicapped Persons Program (GHPP), and Early and Periodic, Screening, Diagnosis and Treatment (EPSDT).

Source: Governor's Budget Summary, 2004-05

8. What's Driving the Growth of Medi-Cal Spending?

- ❖ Rising health care costs:
 - Increases in Medi-Cal spending over the past decade are similar to increases in employer-sponsored health insurance premiums (70 percent vs. 77 percent, respectively).
 - Medi-Cal expenditures per beneficiary have risen fastest for aged, blind, and disabled beneficiaries, in large part a function of rapid increases in spending for prescription drugs.
- ❖ Medi-Cal enrollment has grown 20 percent over the same ten-year period.

**Medi-Cal Expenditures and Health Insurance Premiums,
Cumulative Increases, 1994-2003**

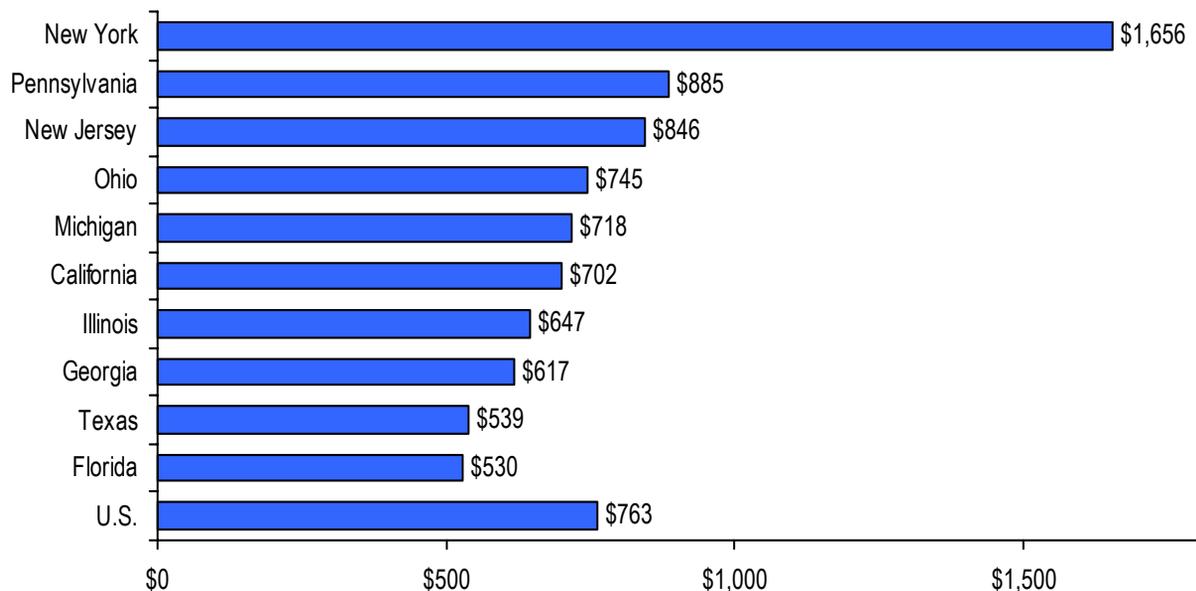


Sources: Department of Health Services (Medi-Cal expenditures) and Kaiser/HRET Survey (Health Insurance Premiums).

9. How Does California's Medicaid Program Compare to Other States?

- ❖ California spends less per resident for Medicaid than the national average (\$702 vs. \$763), and is in the middle of the pack among the 10 largest states.
- ❖ California spends less per beneficiary (\$4,465 vs. \$6,528) even though it covers more optional benefits than most other states. Only 8 states, including California, cover 26 or more of 29 major optional benefits, such as prescription drugs, dental services, and physical exams.
- ❖ California covers a higher proportion of the population (15 percent vs. 13 percent) under Medicaid than the national average. Among the ten largest states, only New York covers a higher percentage of its population under Medicaid.

Medicaid Spending Per Resident, Ten Largest States and U.S., FFY2001

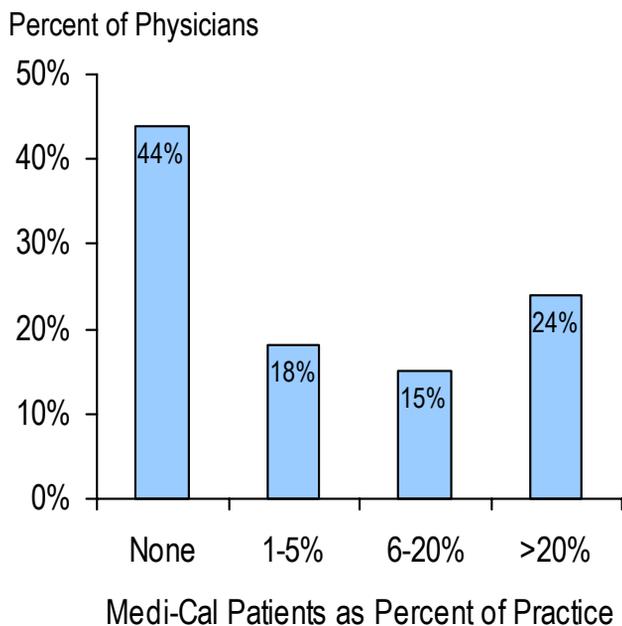


Sources: Kaiser Family Foundation State Health Facts Online (Total Medicaid Spending, FFY2001; Percent of Non-elderly Population Covered by Medicaid, 2000-01, Spending per Beneficiary, FFY2002), and U.S. Census Bureau, Population Division, Release Date 12/20/02. Table ST-EST2002-01 (State Population Estimates, July 1, 2001).

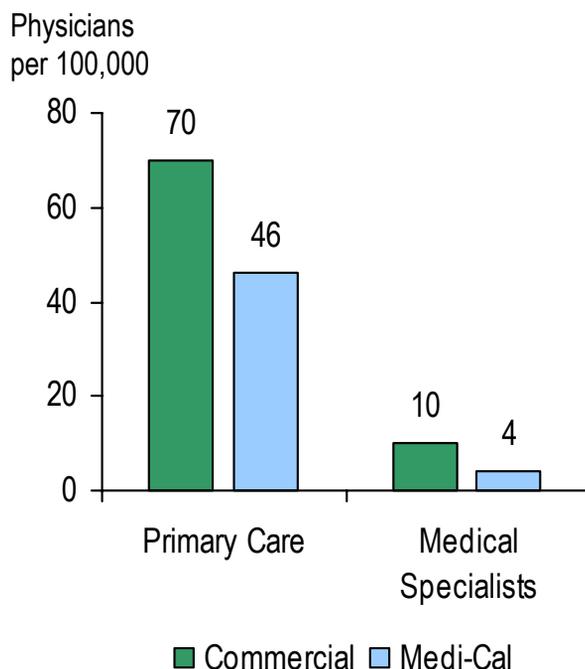
10. What Level of Access to Physician Care Do Medi-Cal Enrollees Currently Have?

- ❖ According to a survey of Medi-Cal beneficiaries, more than half (56 percent) say it is difficult finding a nearby doctor who accepts Medi-Cal.
- ❖ Although nearly one-in-five Californians is covered by Medi-Cal, nearly one-half (44 percent) of urban primary care physicians have no Medi-Cal patients as part of their practice.
- ❖ In urban areas, there are 70 primary care physicians for every 100,000 people in California. Because many limit their Medi-Cal practice, however, there are only 46 primary care physicians per 100,000 Medi-Cal beneficiaries. The minimum level recommended by the federal government is 60-80 per 100,000. In rural areas, similar levels of physicians are available to the Medi-Cal population as to the population overall.
- ❖ Most recent data available indicate that Medi-Cal pays physicians only 65 percent, on average, of what Medicare pays for the same service. California ranks 42nd in the nation on this measure (the average for all 51 Medicaid programs is 81 percent of Medicare), and 5th among the 10 largest states.

Participation in Medi-Cal, 2001



Physician Supply in Urban Areas, 2001

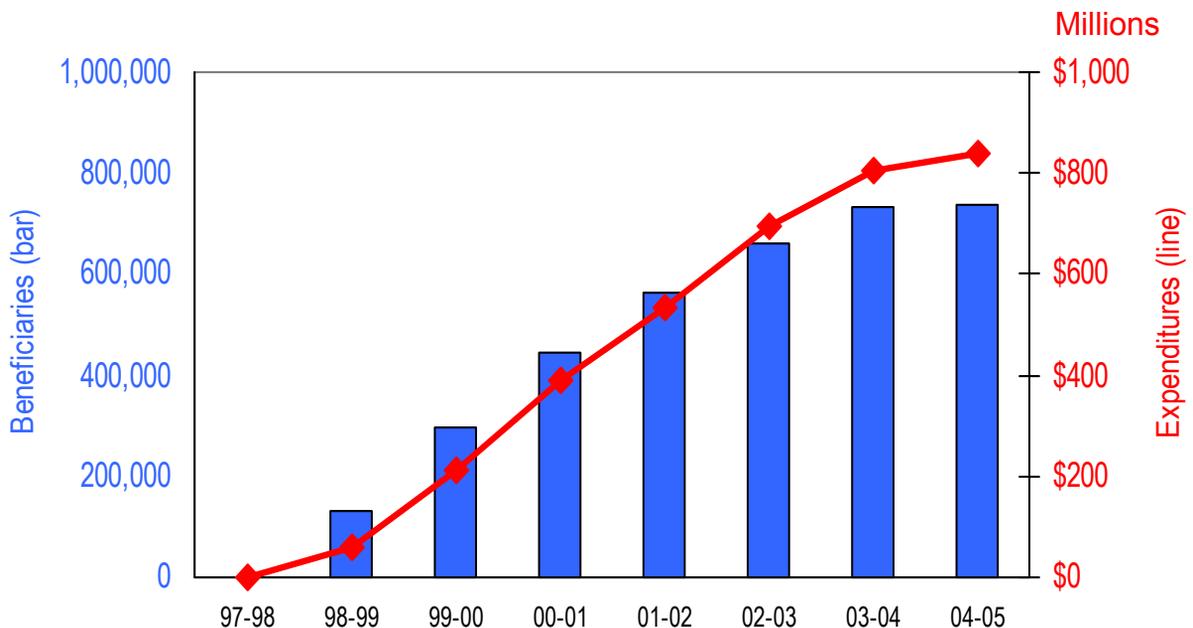


Source: Bindman et al, UCSF: *Physician Participation in Medi-Cal, 2001* (CHCF, May 2003); The Lewin Group: *Comparing Physician and Dentist Fees Among Medicaid Programs* (CHCF, June 2001).

11. How Would the Proposed Budget Impact Healthy Families?

- ❖ Proposed budget would cap Healthy Families enrollment at the January 1, 2004 level (estimated at 732,200). In the first year of this cap, an estimated 159,000 children would be placed on a waiting list for an average of approximately eight months.
- ❖ Proposal would require families with incomes between 201 and 250 percent of federal poverty* to pay higher premiums to keep dental and vision benefits (or lose these benefits at current premium levels). Currently, families pay monthly premiums of \$4 to \$9 per child depending on family size and health plan, with a maximum of \$27 per family.
- ❖ California pays for one-third of the cost of insuring children through Healthy Families. For every \$1 the state spends, the federal government contributes \$2.

Healthy Families Program Enrollment and Expenditures, FY97-98 to FY04-05



*Monthly income of between \$2,544 and \$3,180 for a family of three.

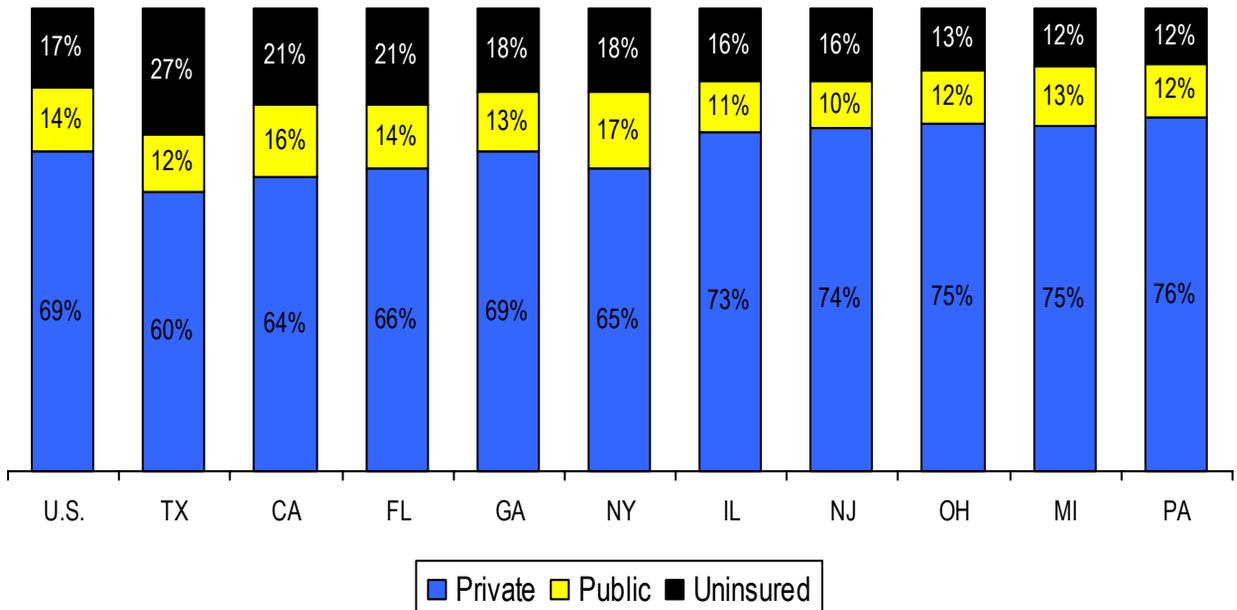
Notes: Includes federal and state expenditures.

Sources: Governor's Budget Summary, 2004-05, and 100% Campaign.

12. What Would Be the Impact on California's Uninsured and the Safety Net?

- ❖ Enrollment caps and eligibility cuts in Medi-Cal and Healthy Families would increase the number of Californians who are uninsured. For example, aligning Medi-Cal eligibility standards with those of CalWORKs, one of the possible Medi-Cal Reform Options discussed in the governor's proposal, could add 350,000 or more people to the number of uninsured.
- ❖ California currently has among the highest proportion of uninsured residents (21 percent).
- ❖ California's higher rate of uninsured is largely due to lower rates of employer-based coverage: 57 percent of Californians have employer coverage compared to 64 percent nationally.
- ❖ If California had the same proportion of uninsured as the national average (17 percent), 1.4 million more Californians would have coverage.

Health Insurance Coverage of the Non-elderly, Ten Largest States and U.S., 2001-2002



Note: Text: Estimate of impact of aligning Medi-Cal eligibility with CalWORKs based on similar proposal discussed in Governor's Budget Summary 2003-04. Graph: Private includes employer and individual coverage. Public includes Medicaid and other public sources.

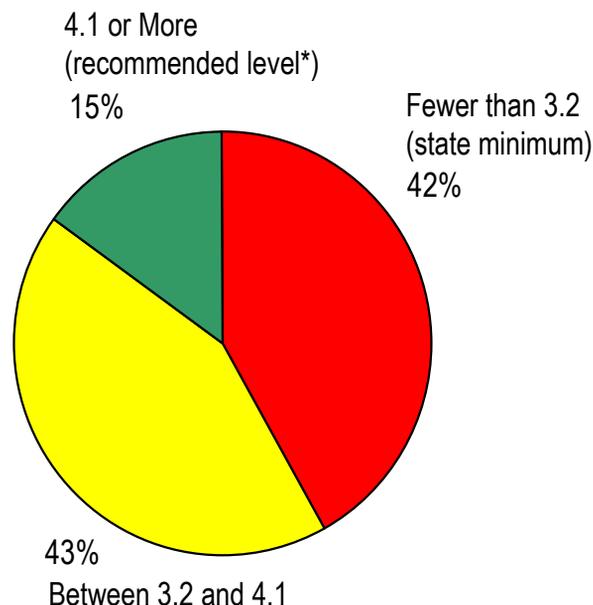
Source: Kaiser Commission on Medicaid and the Uninsured, Health Insurance Coverage in America: 2002 Data Update (December 2003).

13. How Would Long-Term Care Services Be Affected?

- ❖ Proposed budget would eliminate the Wage Adjustment Program, for savings of \$46 million in FY03-04. This program was established to encourage nursing homes to increase staffing levels by funding increases in salaries, wages, or benefits.
- ❖ Proposed budget includes reforms to the Adult Day Health Care Program, including a moratorium on new providers, for savings of \$13 million in FY04-05.
- ❖ Proposed spending reductions for In-Home Supportive Services, which allows many disabled beneficiaries to live in the community, total \$491 million in FY04-05. Some of these state funds could be replaced by federal funds.
- ❖ Proposed budget also reduces state support for aging programs by 5 percent for savings of \$1.6 million, and converts this support to a block grant in FY04-05.

Nursing Home Staff Levels, 2000

(Hours of Nursing Per Resident Day)



*Staffing level recommended by the Center for Medicare and Medicaid Services (CMS).

Source: Charlene Harrington, et. al., California Nursing Home Search: A Policy Paper (October 2002) and Web Site Overview and Research Findings (October 2002)

14. Conclusions

- ❖ Compared to his predecessor, Governor Schwarzenegger relies more on borrowing, less on spending cuts, and not at all on tax increases to balance the budget.
- ❖ Total state funding for Health and Human Services would increase 5.5 percent, from \$27.2 billion in FY03-04 to \$28.7 billion in FY04-05.
- ❖ The governor's budget includes funding sufficient to maintain many of the improvements made to the Medi-Cal and Healthy Families programs in recent years. These include several initiatives which simplify enrollment for children, including 12-months of continuous eligibility, accelerated enrollment, and Express Lane Eligibility.
 - Under the governor's proposed budget, Medi-Cal enrollment would grow from 6.6 million in FY03-04 to 6.8 million in FY04-05.
 - The governor's budget also includes funding sufficient to maintain current enrollment in Healthy Families - approximately 732,200 children.
- ❖ However, the governor also proposes several major spending cuts to Medi-Cal. These cuts total \$229 million in the current year (FY03-04) and \$880 million in the budget year (FY04-05), with another \$400 million in proposed cuts beginning in FY05-06.
 - The largest of these cuts reduces provider rates by 10 percent, for savings of \$462 million. This proposed cut is on top of 5 percent rate cuts adopted in the 2003 Budget Act. Citing concerns about the impact such cuts would have on beneficiaries' access to care, several groups have sued the state over the 2003 rate cut. The court has enjoined the state from implementing these cuts.
 - The governor also proposes to seek federal authority to reduce Medi-Cal eligibility and benefit levels beginning in FY05-06. Although it is not possible to determine their impact until specific cuts are proposed, these reductions are likely to affect coverage for millions of low-income working families, aged, blind, and disabled beneficiaries. For example, aligning Medi-Cal eligibility standards with those of CalWORKs, one of several options discussed in the governor's proposal, could add 350,000 or more people to the number of uninsured.
- ❖ The governor's proposal also caps enrollment in Healthy Families at the level as of January 1, 2004. In the first year of this cap, an estimated 159,000 would be placed on a waiting list for an average of approximately eight months.
- ❖ Enrollment caps and eligibility cuts in Medi-Cal and Healthy Families would increase the number of Californians who are uninsured. At the same time, because the federal government matches state funding for Medi-Cal and Healthy Families, these changes would reduce by more than \$1 billion the amount of federal funds which flow to safety net and other health care providers in the state.
- ❖ Significant cuts are also proposed for In-Home Supportive Services, Mental Health, and other health and long-term care programs.