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June 13, 2010

Governor Arnold Schwarzenegger
State of California
Capitol Building
Sacramento, CA 95814

Dear Governor Schwarzenegger:

Re: *May Revision to the 2010-11 Proposed State Budget*

Community Health Councils (CHC) writes today to express our opposition to additional cuts to health and human services as outlined in the May Revision to the 2010-11 California budget. CHC's analysis of the impact of the May Revision's proposed budget reductions to healthcare coverage and services is detailed in the attached Fact Sheet. We assert there are viable revenue solutions for balancing the budget that will not only help stabilize the state's economy and put people back to work, but also protect the health and human rights of low-income children and families.

The state budget is about priorities, values and choices. What does it say about our elected representatives when the proposed budget deprives millions of children and families of basic health and human services while continuing to honor the tax cuts enacted in the 2008 and 2009 budget agreements that benefited only a very small number of California corporations? With just the savings achieved by repealing these tax cuts, California could fully fund the Healthy Families Program and prevent most of the significant cuts to the Medi-Cal Program for nearly 9 million Californians who rely on public coverage programs. An oil severance tax of 9.9 percent would generate \$1 billion a year and could be applied to maintain CalWORKs, which serves nearly 1.5 million Californians and state-funded preschool programs.

As Governor, you must work with the state legislature and position California to receive more federal funding for healthcare and jobs. California cannot afford to leave federal dollars on the table or suffer further erosion of the overall economy for the benefit of short-term, short-sighted, costly savings. Cuts to programs such as Medi-Cal, Healthy Families and Cal-Works not only deprive families of critical services but undermine the state and local economy. Healthcare represents a key economic driver. Funding from Medi-Cal creates real jobs and tax revenue from not just hospitals, clinics, private and public healthcare providers and their suppliers, but also fuels the manufacture and distribution within the pharmaceutical, medical and durable equipment, medical and information technology industries to name a few. According to a recent report released by the UC Berkeley Center for Labor Research and Education, approximately 330,000 jobs would be lost through the current budget proposal. Of these jobs, 261,000 would result from cuts to health and human service programs.ⁱ The report also shares that proposed reductions to Medi-Cal would result in \$1.4 billion lost federal matching funds, 32,000 jobs, \$5 billion in economic output and \$257 million in state and local tax revenue. For the Healthy Families Program, the budget would result in \$71 million in lost federal matching funds, 1,000 jobs, \$233 million in economic output and \$12 million in state and local tax revenue.ⁱⁱ

The proposed May Revision may be "*penny wise*," but it is "*pounds foolish*." The nation has witnessed and suffered the impact of short-term spending schemes. It is time to reinvest in California and lead our state to economic health; put people back to work; and protect the health and human rights of children and low-income families. Once again, we ask for your

leadership in pushing through the following revenue solutions to avoid making unnecessary cuts to critical health and human services.

- ***Repeal the Tax Cuts Enacted as Part of the September 2008 and February 2009 Budget Agreement.*** Despite the budget crisis, the legislature approved massive corporate tax breaks, including cuts that will provide large benefits for a very small number of corporations in California and result in the loss of \$2 billion in state revenue each year when fully implemented. According to the California Budget Project, repealing the tax cuts would generate revenues of **\$685 million** in 2010-11.
- ***Oil Severance Tax.*** California is the only state that does not tax oil production. A tax of 9.9 percent would generate **\$1 billion** a year and would have no impact on the production or the price of gas at the pump for consumers.
- ***A "Nickel a Drink" Tax or Fee on Alcoholic Beverages.*** Billions in public costs, including for healthcare and law enforcement, can be attributed to alcohol abuse. Alcoholic-beverage taxes have not increased since 1991. A tax or fee would raise approximately **\$585 million**.
- ***Fully Restore the Vehicle License Fee to 2% of Value.*** Restore the vehicle license fee to 2% of the depreciated value of a vehicle by making a 0.85 percentage point increase in the current rate. This was the rate when Governor Schwarzenegger took office in 2003 and could generate up to **\$2 billion**.
- ***Reinstate the 10% and 11% Personal Income Tax Rates for the Top 1.5% Highest Earners.*** The tax rate for top earners in 2009 is below 1991 rates, while recent tax increases adopted by the legislature disproportionately impact low- and middle-income taxpayers. Going back to 1991 rates **generates \$4-6 billion** in revenue through a new 10 percent rate on the earnings of joint taxpayers with incomes above \$321,000 (\$160,500 single) and an 11 percent rate on joint taxpayers with incomes above \$642,000 (\$321,000 single).
- ***Broadening the Sales Tax.*** Expanding the narrow sales tax base by including options such as repair services, entertainment and recreation, cable and satellite TV, and digital downloads could generate between **\$2 and \$4 billion**.
- ***Limit Mortgage Interest Deductions to Primary Residences.*** California currently subsidizes vacation homes and boats through mortgage interest deductions. Eliminating this tax loophole would raise approximately **\$85 million** per year.

We welcome the opportunity to discuss these and other ideas in more detail at your earliest convenience. Should you require any additional information or have any questions, please feel free to contact Michelle Wood, Policy Analyst at 323.295.9372 extension 225. Thank you.

Sincerely,

Lark Galloway-Gilliam
Executive Director

cc: Senate President Pro Tempore Darrell Steinberg
Assembly Speaker John A. Perez
Senate Minority Leader Dennis Hollingsworth
Assembly Minority Leader Martin Garrick
Honorable Members of the Senate Budget Committee
Honorable Members of the Assembly Budget Committee
Kim Belshé, Secretary, California Health and Human Services Agency
Jennifer Kent, Deputy Legislative Secretary, Office of Governor Schwarzenegger
David Maxwell-Jolly, Director, California Department of Health Care Services
Toby Douglas, Chief Deputy Director, Department of Health Care Services
Lesley Cummings, Executive Director, Managed Risk Medical Insurance Board

ⁱ University of California, Berkeley Center for Labor Research and Education. The Economic Consequences of Proposed California Budget Cuts (May 2010).

ⁱⁱ Ibid.