

## Revenue Solutions for California's Budget Crisis

The State Budget Committee may vote as early as Monday on whether to recommend eliminating the Healthy Families Program to save \$368 million in the State General Fund, although also costing California \$560 million in matching federal dollars (see following story for more on the budget cuts). California cannot afford a cuts only approach to its budget crisis, and needs to identify new revenue strategies to offset the most egregious proposals.

If the legislature adopted the seven revenue solutions outlined below, California could avoid nearly all of the Governor's proposed program reductions to education, health and human services, and other public programs. Just by repealing the tax cuts enacted over the last eight months that benefited only a very small number of California corporations, the State could continue the Healthy Families Program and provide healthcare coverage to nearly one million children. Additionally, \$1 billion in proposed cuts to Medi-Cal eligibility, which could result in a loss of health coverage for nearly a million Californians, would be avoided if the legislature imposed a severance tax on oil production.

Among the options that should be considered are:

- *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), generating **\$4-6 billion** in revenue.
- *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 could generate up to **\$2.9 billion**.
- *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**.

- *Oil Severance Tax.* California is the only state that does not tax oil production. A tax of 9.9 percent, which has been proposed by the Governor, would generate **\$1 billion** a year and would have no impact on the production or the price of gas at the pump for consumers.
- *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. Repeal of tax credit sharing enacted in September 2008 will raise **\$80 million** in 2009-10. Eliminating the temporary tax cuts enacted in February 2009 will raise **\$341 million** in 2009-10.
- *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**.
- *Limit Mortgage Interest Deductions to Primary Residences.* California currently subsidizes vacation homes and boats through mortgage interest deductions. Elimination of this tax loophole would raise approximately **\$85 million** per year.

It's time for California legislators to be fiscally responsible by maintaining programs that not only help children and families during this economic downturn, but also keep billions of dollars circulating through our economy. Additional analysis of the State's budget crisis and solutions can be found at the California Budget Project's website at [www.cbp.org](http://www.cbp.org) and by contacting Michelle Wood, Policy Analyst, [michelle@chc-inc.org](mailto:michelle@chc-inc.org).

## Families Unfairly Shoulder the Burden of Balancing California's Budget

The Governor's May Revise to the 2009-10 state budget calls for an additional \$2.4 billion in cuts to health and

human services beyond the \$15 billion in cuts to health and other vital services that were made in February through the final 2009-10 budget. The Governor has proposed a new round of deep cuts to the Medi-Cal and Healthy Families programs in the May Revise including:

- \$1 billion in unspecified cuts to reduce Medi-Cal eligibility
- \$366 million reduction with the elimination of the Healthy Families Program
- \$2.7 million cut with the elimination of Certified Application Assistance to help enroll and retain children in Medi-Cal and Healthy Families.

The cuts to healthcare alone could cause nearly 2 million Californians—the vast majority children—to lose access to cost-effective healthcare. Additional cuts to CalWORKS; IHSS and SSI benefits for seniors, the blind and disabled; and food assistance programs for legal immigrants would make a tenuous situation for families even worse.

#### *Eliminating Healthy Families*

The Governor proposes eliminating the Healthy Families program, which would mean a loss of healthcare coverage for 942,000 California children—nearly 250,000 in Los Angeles County alone—forcing families to make costly emergency room visits or go without care altogether. The elimination of Healthy Families will shift the financial burden of care onto local community clinics and county facilities already struggling to serve their own consumers. In addition, the cuts mean that California could lose approximately \$560 million in matching federal dollars.

#### *Cutting Medi-Cal Eligibility*

The Governor is also seeking a \$1 billion waiver from the federal government that would allow the State to cut Medi-Cal spending. While not specifying what these reductions might be, in the past they have included onerous paperwork requirements on children in Medi-Cal to renew coverage and denying coverage to parents earning more than \$22,056 for a family of four. Implementing these changes could result in the loss of health coverage for nearly one million Californians. Many more could be impacted by lower provider rates or decreased benefits.

#### *Abolishing Application Assistance*

The Governor has proposed eliminating Certified Application Assistance (CAA) fees in the Medi-Cal and Healthy Families programs. California has over 20,000 individuals trained as certified application assistants. The

small investment the State has made in CAA reimbursements has successfully enrolled and retained hundreds of thousands of children in Medi-Cal and Healthy Families. Approximately 120,737 children in FY 2007-08 were enrolled or retained with assistance and approximately 35% of all applications processed monthly are assisted by CAAs. When application assistance was eliminated in 2004, 70% of all applications were incomplete, requiring increased administrative outlays for follow up and assistance.

#### *Slashing the Safety Net*

As if the healthcare cuts alone weren't enough for struggling families to bear, eliminating the CalWORKS program would mean that 1.2 million people, including 900,000 children, would lose cash assistance. Under these proposals, health coverage for legal immigrant adults would be reduced to emergency services only, impacting 80,600 people. Additionally, 11,000 legal immigrant households will be hard hit by the closure of the food assistance program.

The Governor's proposal would also reduce IHSS workers wages to the state minimum of \$8 per hour, plus \$.60 per hour for health benefits. This proposal would throw more workers into poverty; decrease the availability of home care workers for consumers; and increase the drain on public benefits as workers qualify for various types of public assistance and consumers are forced into institutions.

#### *Healthcare a Key Economic Driver*

Healthcare is one of the largest industries in California, and these dollars represent not only health coverage, but jobs and tax revenue. Funding from Medi-Cal not only creates jobs within the healthcare field, but also in a wide network of ancillary businesses and suppliers. A \$1 billion rollback in state spending for Medi-Cal could result in the loss of \$2.5 billion in business activity; 19,840 jobs; and \$900 million in salaries and wages. If the waiver isn't approved by the federal government, California would lose the \$1.60 federal match for every dollar it cuts in Medi-Cal spending, or \$1.6 billion, in addition to the \$560 million lost from Healthy Families cuts.

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