

REVISED STATE BUDGET SELLS KIDS SHORT

The Administration's May Revision of the 2012-13 state budget addresses a \$15.7 billion shortfall through funding shifts, cuts, and new revenue sources that place children squarely in harms way. California's kids are already grossly underserved relative to the rest of the nation's children. If the May Revise budget is passed by the Legislature, the state's children would be forced to shoulder a huge portion of the proposal's \$8.3 billion in cuts, including massive decreases in funding for early childhood programs, education, and health and human services.

Moreover, the lion's share of the budget proposal's new revenues is contingent on the passage of a temporary sales and income tax measure that the Governor is placing on the November 2012 ballot. If the measure fails, the proposal includes an additional \$6.1 billion in automatic "trigger cuts" to close the resulting revenue gap, with education bearing 90% (\$5.6 billion) of the brunt of these cuts. This puts children's well-being at substantial additional risk.

California ranks high among the 50 states in per capita state and local tax revenues. The state also ranks high on per capita spending on some government services, notably third in the nation on corrections and law enforcement. But for years, California has ranked among the lowest in per pupil spending on education and per capita spending on children's health. The lack of priority given to children is undermining the state's immediate and long-term stability.

There is a little good news for children in the Administration's proposal, including realignment protections for foster care. However, these proposed gains are offset by other losses, such as a major backslide in access to quality early learning for vulnerable children and decreasing children's access to health care by moving children from Healthy Families to Medi-Cal for health coverage.

These and other key components of the budget proposal impacting kids are detailed below.

SEVERE CUTS TO EDUCATION, EARLY LEARNING AND DEVELOPMENT

Devastating Funding Cuts to Early Learning and Development Access and Quality

The Administration's updated budget proposal continues to fail young children by including a number of devastating funding cuts as well as an ill-advised restructuring of the way California provides early learning programs to its youngest children. Specifically, the proposal includes a \$450 million cut to early learning through such changes to program eligibility as lowering the family income requirement and slashing provider reimbursement rates, thereby severely restricting access to these programs for those that benefit from them the most. Early learning programs have already been cut more than \$1.2 billion since 2008—and if this proposal goes through, early learning programs will have lost 40% of their total funding in just four years.

Additionally, the Administration wants to eliminate funding for Transitional Kindergarten, which would immediately deny 40,000 young children access to elementary school. First 5 California is also targeted, as it has been for the past five years, by a proposed funding cut of \$80 million, which would further hinder First 5 state and county commissions' ability to deliver comprehensive, quality early childhood services to vulnerable young children.

Equally troubling is the proposal to de-link early learning from the state's K-12 education system by removing responsibility for early learning programs from the California Department of Education and

phasing out high-quality centers that directly contract with state to provide part- and full-time care and education to young children. This restructuring proposal means that approximately 80,000 children -- including thousands of infants, toddlers and preschoolers -- could lose access to quality early learning programs that are crucial to their lifetime success. The revised budget continues to propose shifting all programs except for one from the state to the counties, threatening their continued long-term funding and existence, and speeding up county implementation to 2012-2013. This is a major, potentially disastrous education policy shift that should be thoughtfully deliberated through the legislative process and not rushed through the state's high-pressure budget process.

Overall, the revised budget for early learning and development is the wrong direction for the state to take as it fails to reflect the importance of children's early education to their lifetime success. If approved, it will derail recent successes at the state, county and local levels to ensure programs throughout California deliver positive, lasting outcomes for children from birth to elementary school and beyond.

Undermining Proposition 98 and the Voter's Will

The budget proposal's manipulation of Proposition 98 clearly undermines the minimum education funding guarantee already enacted by California voters. This includes a number of accounting gimmicks, which significantly reduce funding for schools. To make matters worse, if the Governor's tax measure fails in November, the Administration proposes automatically triggering \$5.6 billion in mid-year reductions to K-14 education, through legally-questionable maneuvers, which equates to \$415 per K-12 student or a total of 15 days less school in 2012-13 and 2013-14. This puts children at significant risk and unfairly targets public education, which has been burdened by a disproportional share of the budget cuts over the last several years.

SIGNIFICANT, DETRIMENTAL CHANGES TO CHILDREN'S HEALTH PROGRAMS

The 2012-13 May Revise budget proposal would dramatically change the children's health coverage landscape, placing the health of hundreds of thousands of children at risk. The Administration proposes to move all 875,000 children enrolled in the state's Healthy Families Program into Medi-Cal for health coverage. The children in Healthy Families would be moved in phases, from October 2012 to June 2013. Once they are moved to Medi-Cal, the rate paid to the managed care plans that serve them would be significantly reduced, to align with the lower rates paid by Medi-Cal. Reducing reimbursement rates in this way is estimated to save the state \$48.6 million in 2012-13. Doing so, however, would undoubtedly decrease the number of health plans and providers willing and able to serve these children, which would in turn make access to care even more difficult. In addition, as a result of the Healthy Families rate reduction, the state would stand to lose over \$90 million in federal funds. This proposed shift would place a significant, additional load and pressure on Medi-Cal, which is already suffering from deep cuts to its provider network, and thereby would further limit children's access to care.

Any proposed move of children enrolled in Healthy Families to Medi-Cal must prioritize the health care needs of those children and include implementing policy protections to ensure children have adequate access to quality primary and specialty care. Without a thoughtful plan and strong safeguards, the health of California's children would likely be harmed. That's why Children Now and our children's health coverage partners have been joined by over 40 organizations, including pediatricians, health care providers, community organizations, and faith-based groups, in support of a more reasonable alternative that would responsibly transition only those kids required to be moved into Medi-Cal in 2014 as part of the federal health reform law.

The Administration also proposes a number of other serious cuts to Medi-Cal that could adversely affect children's timely access to health care services, especially those with the greatest needs. For example, the Governor has proposed to limit the eligibility for children with neurological or musculoskeletal disorders to receive medical therapy services through the California Children's Services program.

The budget proposal includes policy changes that could significantly limit access to care for nearly 3.7 million children enrolled in Medi-Cal and their families. The proposal includes major programmatic changes to Medi-Cal, which are estimated to save over \$109 million in 2012-13. One change would increase co-payments for Medi-Cal enrollees, including a \$15 co-payment for non-emergency use of the emergency room. Research has shown that even relatively small co-payments can decrease access to care and the use of needed services for low-income families. Other changes include expanding Medi-Cal managed care in rural counties, changing payments made to clinics and school-based health centers, limiting beneficiaries' ability to change Medi-Cal health plans, and redesigning the delivery of Medi-Cal benefits.

As previously mentioned, the proposal would divert \$80 million from First 5 California – \$40 million to reduce Medi-Cal General Fund costs and \$40 million to reduce General Fund dollars for the Department of Developmental Services' Early Start Program. This diversion of funds would impact First 5's ability to provide health care and other services to young children, on top of the almost \$330 million already diverted from First 5 since 2008-09.

On the positive side, the Governor proposes extending an existing quality assurance fee charged to hospitals, which would save the state \$472 million in 2012-13, and an assessment on Medi-Cal managed care plans, which would save the state \$161.8 million in 2012-13. These funds are currently being used to support public health coverage programs for children, and their extension is subject to federal approval.

A RESTRUCTURING OF CHILD WELFARE PROGRAMS AND SERVICES

Since fiscal management of child welfare services, including foster care, was realigned from the state to the county level in last year's budget, funding for these programs was not included in the Governor's 2012-13 revised budget proposal. The May Revise, however, includes some positive policy changes related to the structure of child welfare services realignment for 2012-13 and beyond. These changes respond to the policy guidance provided by Children Now and its allies on how to ensure children's needs are met through realignment.

First, the proposal guarantees a base level of funding (determined by a "base-plus-growth" formula) for realigned services, even if the realigned revenues fall short. Growth funding generated by an increase in sales tax revenue would be distributed on a proportional basis, with entitlement programs, including foster care, receiving priority. Funding for child welfare services, which is estimated to have received \$300 million less than anticipated in realignment, would receive priority in growth funds until its base has been increased by \$200 million.

Second, the May Revise addresses the issue of transferability and the potential for inequity in the distribution of funding between realigned services (i.e., too much for law enforcement at the expense of children's services). It proposes a firewall between Law Enforcement and Support Services accounts, but allows counties to transfer up to 10% between sub-accounts within Support Services. These transfers would be for one year only and would not reset the base of either sub-account.

Finally, the proposal would restructure the accounts under realignment. There would be two main accounts: Law Enforcement Services and Support Services. Under the Support Services account,

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there would be two sub-accounts: Protective Services, which includes adoption, adoption assistance, adult protective services, child abuse prevention intervention and treatment, child welfare services, and foster care; and Behavioral Health, which includes Early Periodic Screening, Diagnosis, and Treatment (EPSDT), drug courts, drug Medi-Cal, Medi-Cal managed care, non-drug Medi-Cal services, and perinatal drug services.

Children Now is pleased to see the insufficient base funding for child welfare services being addressed, as well as the proposal of a firewall to protect funding for child welfare services from being redistributed to law enforcement programs at the expense of children's well-being.

CONCLUSION

Based on the facts and what's best for Californians, children should be the last place policymakers look to balance California's budget. Yet kids continue to be forced to shoulder much of the budget burden. The short- and long-term impacts of failing to invest adequately in the children of California will be immediate and severe, from tens of thousands of young children being denied the early learning opportunities they clearly need to the long-term economic consequences as they impact our citizens and workforce of tomorrow.

CONTACT

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