PROPOSITION 41

PUBLIC AID AND MEDICAL ASSISTANCE PROGRAMS

SEPTEMBER 24, 1984

LEGISLATIVE ANALYST

STATE OF CALIFORNIA

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SACRAMENTO, CALIFORNIA 95814

PROPOSITION 41--PUBLIC AID AND MEDICAL ASSISTANCE PROGRAMS

STATEMENT TO A JOINT MEETING OF THE SENATE COMMITTEE ON HEALTH AND HUMAN SERVICES AND ASSEMBLY HUMAN SERVICES COMMITTEE
SACRAMENTO, SEPTEMBER 24, 1984

MADAM CHAIRWOMAN, MR. CHAIRMAN, AND MEMBERS:

YOU HAVE ASKED ME TO PROVIDE YOUR COMMITTEES WITH INFORMATION ON THE INITIATIVE THAT WILL APPEAR AS PROPOSITION 41 ON THE STATEWIDE BALLOT AT THE NOVEMBER 6, 1984, ELECTION. THIS MEASURE AFFECTS CALIFORNIA'S PUBLIC AID AND MEDICAL ASSISTANCE PROGRAMS. SPECIFICALLY, YOU HAVE ASKED THAT WE PROVIDE AN OVERVIEW OF THE MEASURE'S PROVISIONS AND DISCUSS THE FISCAL EFFECT OF THE MEASURE IF IT IS APPROVED BY THE VOTERS.

A. MAJOR PROVISIONS OF THE MEASURE

PROPOSITION 41 WOULD PLACE LIMITS ON THE AMOUNT THAT COULD BE SPENT IN CALIFORNIA FOR SOME, BUT NOT ALL, PUBLIC ASSISTANCE PROGRAMS, BEGINNING IN JULY 1986. AMONG THE PROGRAMS THAT WOULD BE SUBJECT TO THE MEASURE'S EXPENDITURE LIMITS ARE THE FOLLOWING:

1. THE AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC) PROGRAM, WHICH PROVIDES CASH GRANTS TO CHILDREN AND THEIR PARENTS WHEN THE PARENTS' INCOME IS NOT SUFFICIENT TO MEET THE FAMILY'S BASIC NEEDS. THIS PROGRAM ALSO PROVIDES SUPPORT FOR CHILDREN IN FOSTER CARE AND FUNDS VARIOUS EMPLOYMENT AND TRAINING PROGRAMS.

2. THE MEDI-CAL PROGRAM, WHICH PROVIDES HEALTH CARE SERVICES TO AFDC AND SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PROGRAM (SSI/SSP) CASH GRANT RECIPIENTS, AS WELL AS TO OTHER INDIVIDUALS WHO CANNOT AFFORD TO PAY THE COST OF THEIR HEALTH CARE. THIS PROGRAM PAYS ALL OR A PORTION OF THE COSTS INCURRED BY COVERED PERSONS FOR A RANGE OF MEDICAL SERVICES,

INCLUDING DOCTOR VISITS, HOSPITAL STAYS, NURSING HOME CARE, DENTAL CARE, DRUGS, AND MEDICAL APPLIANCES.

3. OTHER PROGRAMS, INCLUDING FAMILY PLANNING AND A SMALL FOOD PROGRAM OPERATED IN ONE COUNTY.

THE MEASURE WOULD LIMIT THE EXPENDITURE OF FEDERAL, STATE, AND COUNTY FUNDS IN CALIFORNIA FOR THE SPECIFIED PUBLIC ASSISTANCE PROGRAMS. THIS LIMIT WOULD BE SET AT 110 PERCENT OF THE AVERAGE PER CAPITA EXPENDITURE UNDER THESE OR COMPARABLE PROGRAMS IN THE OTHER 49 STATES. THUS, EXPENDITURES IN CALIFORNIA FOR THESE PROGRAMS COULD NOT EXCEED THE AVERAGE PER CAPITA EXPENDITURES IN THE OTHER STATES BY MORE THAN 10 PERCENT. PROPOSITION 41 WOULD PLACE A SIMILAR LIMIT ON THE AMOUNT THAT COULD BE SPENT IN CALIFORNIA TO <u>ADMINISTER</u> THESE PROGRAMS.

UNDER THE MEASURE, THE LEGISLATURE COULD DECIDE THE SIZE OF THE REDUCTION IN EXPENDITURES UNDER EACH INDIVIDUAL PROGRAM AFFECTED BY THE EXPENDITURE LIMITS (IN ORDER TO COMPLY WITH THE EXPENDITURE LIMITS). THE LEGISLATURE, BY <u>MAJORITY</u> VOTE AND WITH THE GOVERNOR'S APPROVAL, COULD CHOOSE TO ALLOW EXPENDITURES FOR ONE OR MORE OF THE AFFECTED PROGRAMS TO EXCEED 110 PERCENT OF COMPARABLE EXPENDITURES IN THE OTHER 49 STATES, PROVIDED THAT TOTAL EXPENDITURES IN CALIFORNIA FOR ALL OF THE AFFECTED PROGRAMS DID NOT EXCEED THE 110 PERCENT LIMIT. IN ADDITION, THE LEGISLATURE, BY <u>TWO-THIRDS</u> VOTE AND WITH THE GOVERNOR'S APPROVAL, COULD AMEND ANY PORTION OF THE MEASURE.

PROPOSITION 41 <u>EXCLUDES</u> FROM ITS EXPENDITURE LIMITS THE FOLLOWING ASSISTANCE PROGRAMS: (1) SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PROGRAM, (2) IN-HOME SUPPORTIVE SERVICES (WHICH PROVIDES HOMEMAKER SERVICES

TO ELDERLY AND DISABLED INDIVIDUALS), (3) ADMINISTRATIVE ACTIVITIES RELATED TO THE ENFORCEMENT AND COLLECTION OF CHILD SUPPORT PAYMENTS, (4) PORTIONS OF THE MEDI-CAL PROGRAM SUPPORTING CARE FOR RECIPIENTS IN SKILLED NURSING FACILITIES, (5) DAY CARE FOR ELDERLY AND OTHER FRAIL ADULTS, (6) CHILD WELFARE SERVICES, AND (7) OTHER SPECIFIED SOCIAL SERVICES PROVIDED BY COUNTY WELFARE DEPARTMENTS. NOR DOES THE MEASURE LIMIT EXPENDITURES UNDER THE FEDERAL FOOD STAMP PROGRAM OR COUNTY-FUNDED GENERAL ASSISTANCE PROGRAMS WHICH PROVIDE AID AND MEDICAL ASSISTANCE TO INDIGENTS. (ATTACHMENT I LISTS THE PROGRAMS THAT ARE SUBJECT TO PROPOSITION 41'S EXPENDITURE LIMITS, AS WELL AS THE PUBLIC ASSISTANCE PROGRAMS THAT ARE EXEMPT FROM THESE LIMITS.)

THE MEASURE ALSO ESTABLISHES THE CALIFORNIA PUBLIC ASSISTANCE COMMISSION AND APPROPRIATES FROM THE STATE GENERAL FUND $250,000 ANNUALLY, BEGINNING IN 1984-85, TO FINANCE THE COMMISSION'S ACTIVITIES. THE COMMISSION WOULD CONDUCT AN ANNUAL SURVEY OF PUBLIC ASSISTANCE PROGRAMS IN CALIFORNIA AND OTHER STATES. EACH YEAR, THE COMMISSION WOULD PRESENT THE RESULTS OF ITS SURVEY TO THE LEGISLATURE AND THE GOVERNOR, ALONG WITH A DESCRIPTION OF ANY CHANGES IN LAWS THAT IT RECOMMENDS BE MADE IN ORDER TO COMPLY WITH THE EXPENDITURE LIMITS IMPOSED BY THE MEASURE.

B. FISCAL EFFECT

PROPOSITION 41 WOULD AFFECT BOTH EXPENDITURES AND REVENUES IF APPROVED BY THE VOTERS.

<u>EXPENDITURES</u>. WE ESTIMATE THAT THE MEASURE WOULD RESULT IN A NET REDUCTION IN <u>COMBINED</u> STATE AND COUNTY EXPENDITURES, BEGINNING ON JULY 1, 1986. WE USE THE TERM "NET REDUCTION" BECAUSE PROPOSITION 41 WOULD

INCREASE EXPENDITURES UNDER SOME PROGRAMS WHILE REDUCING THEM UNDER OTHERS. SPECIFICALLY, THE MEASURE WOULD:

- REDUCE EXPENDITURES UNDER THE SPECIFIED PUBLIC ASSISTANCE PROGRAMS.
- RESULT IN INCREASED COSTS UNDER OTHER (EXEMPT) CASH GRANT AND MEDICAL ASSISTANCE PROGRAMS, PRIMARILY THOSE SUPPORTED BY COUNTY GOVERNMENTS.

THE INCREASED COSTS WOULD PARTIALLY OFFSET THE REDUCTION IN EXPENDITURES UNDER THE SPECIFIED PUBLIC ASSISTANCE PROGRAMS.

IT IS IMPOSSIBLE TO DETERMINE THE SIZE OF THE NET REDUCTION IN COMBINED STATE-COUNTY EXPENDITURES THAT WOULD RESULT FROM PROPOSITION 41 AT THIS TIME. NOR IS IT POSSIBLE TO SPECIFY WHAT THE FISCAL IMPACT OF THE MEASURE WOULD BE ON INDIVIDUAL LEVELS OF GOVERNMENT. THIS IS BECAUSE THE MEASURE'S IMPACT WOULD DEPEND ON A NUMBER OF EVENTS THAT HAVE YET TO TAKE PLACE AND CANNOT BE PREDICTED WITH ANY RELIABILITY. SPECIFICALLY, THE NET FISCAL IMPACT OF THE MEASURE IN TOTAL AND AT EACH LEVEL OF GOVERNMENT WOULD DEPEND ON:

- HOW MUCH EACH OF THE OTHER 49 STATES CHOOSES TO SPEND ON PUBLIC ASSISTANCE PROGRAMS IN THE FUTURE.
- THE NATURE OF THE PROGRAM CHANGES MADE BY THE LEGISLATURE IN IMPLEMENTING THIS MEASURE (SOME OF THE CHANGES WOULD BRING ABOUT AN INCREASE IN THE COSTS OF OTHER ASSISTANCE PROGRAMS THAT ARE NOT SUBJECT TO THE EXPENDITURE LIMITATIONS; OTHERS MIGHT NOT).

- Decisions made by the Public Assistance Commission and the state's 58 counties in implementing the measure.
- The economy's performance, particularly with respect to inflation and unemployment (which would affect the number of persons seeking public assistance).
- The nature of any changes in federal law and regulations governing the affected programs.

The state General Fund would incur an additional cost of $250,000 annually, beginning in 1984-85, for support of the California Public Assistance Commission created by this measure.

<u>Revenues</u>. The measure also would indirectly reduce revenues to the state and local agencies. This is because reductions in expenditures under the specified public assistance programs would reduce the size of federal matching grants provided to California in support of these programs, thereby reducing the level of total expenditures (public and private) within the state. Here again, it is impossible at this time to estimate the <u>size</u> of the revenue loss attributable to this measure, for the same reasons given above.

<u>The Measure's Potential Fiscal Impact: An Illustration</u>. While we cannot predict what the fiscal effect of the measure would be in 1986-87 and beyond if it should be implemented, we can provide an indication of the measure's potential effects. We can do this by illustrating what the effects of the measure <u>would have</u> been, had it been implemented in a prior year. The most recent year for which complete data are available is the federal fiscal year 1983.

If Proposition 41 had been in effect between October 1982 and September 1983, approximately \$6.2 billion in public assistance expenditures within California would have been subject to the measure's spending limits. The individual amounts are shown in the first column of Table 1. The measure would have required that combined federal, state, and county expenditures under the affected programs be reduced by \$3.0 billion. Assuming that the reductions would have been made so that expenditures under each individual program were within the 110 percent limit, expenditures on AFDC benefits would have been reduced by 60 percent and expenditures on Medi-Cal benefits would have been reduced by 36 percent.

Table 1

Hypothetical Effect of Proposition 41 on Expenditures Under the Affected Programs if the Measure Had Been In Effect During Federal Fiscal Year 1983 (in millions)

	1983 Expenditures	Hypothetical Limit	Required Reduction Amount	Required Reduction Percent
AFDC				
Benefit costs	\$2,986	\$1,195	\$1,791	60%
Administrative costs	333	157	176	53
Medi-Cal				
Benefit costs	2,648	1,683	965	36
Administrative costs	242	158	84	35
Family Planning	39	9	30	77
Totals	\$6,248	\$3,202	\$3,046	49%

THE REDUCTION IN GENERAL FUND EXPENDITURES IN FEDERAL FISCAL YEAR 1983 WOULD HAVE BEEN $1.4 BILLION, WHILE THE EXPENDITURE OF COUNTY FUNDS WOULD HAVE BEEN REDUCED BY $140 MILLION. IN ADDITION, THERE WOULD HAVE BEEN A $1.5 BILLION REDUCTION IN THE AMOUNT OF FEDERAL MATCHING FUNDS RECEIVED AND SPENT BY CALIFORNIA, PARTIALLY OFFSET BY INCREASED FEDERAL SPENDING IN CALIFORNIA UNDER THE FOOD STAMP PROGRAM. (THIS IS BECAUSE FEDERAL GRANTS-IN-AID TO CALIFORNIA FOR THE AFFECTED ASSISTANCE PROGRAMS ARE BASED ON THE AMOUNT SPENT BY THE STATE AND ITS COUNTIES.)

THE NET REDUCTION IN BENEFIT EXPENDITURES WITHIN CALIFORNIA BY ALL LEVELS OF GOVERNMENT, HOWEVER, WOULD HAVE BEEN LESS THAN $3 BILLION--PERHAPS CONSIDERABLY LESS, DEPENDING ON HOW THE REDUCTIONS WERE IMPLEMENTED. THIS IS BECAUSE SOME PORTION OF THE EXPENDITURE REDUCTIONS UNDER THE AFFECTED PROGRAMS WOULD HAVE BEEN OFFSET BY INCREASED EXPENDITURES UNDER OTHER STATE OR COUNTY PROGRAMS. FOR EXAMPLE, INDIVIDUALS WHO LOSE AFDC ELIGIBILITY AS A RESULT OF PROGRAM CHANGES MADE BY THE LEGISLATURE IN ORDER TO COMPLY WITH THE MEASURE'S EXPENDITURE LIMITATIONS MIGHT BE ELIGIBLE TO RECEIVE CASH ASSISTANCE UNDER COUNTY GENERAL RELIEF PROGRAMS. SIMILARLY, INDIVIDUALS WHO LOSE ELIGIBILITY FOR MEDI-CAL BENEFITS MIGHT BE ELIGIBLE TO RECEIVE MEDICAL TREATMENT AT COUNTY EXPENSE IN COUNTY HOSPITALS. NEITHER OF THESE COUNTY-FUNDED PROGRAMS IS SUBJECT TO THE EXPENDITURE LIMITS THAT WOULD BE ESTABLISHED BY PROPOSITION 41.

IT IS NOT POSSIBLE TO ESTIMATE WHAT THE SIZE OF THE INCREASE IN COUNTY COSTS WOULD HAVE BEEN IN FEDERAL FISCAL YEAR 1983 WITHOUT KNOWING

THE SPECIFIC PROGRAM CHANGES THAT WOULD HAVE BEEN MADE BY THE LEGISLATURE IN ORDER TO IMPLEMENT THIS MEASURE. IT IS LIKELY, HOWEVER, THAT THE COUNTIES' EXPENDITURES WOULD HAVE BEEN HIGHER THAN THEY OTHERWISE WOULD HAVE BEEN, EVEN THOUGH THE MEASURE WOULD HAVE RESULTED IN A NET DECREASE IN COMBINED STATE AND COUNTY EXPENDITURES.

IF THE MEASURE HAD BEEN IN EFFECT DURING FEDERAL FISCAL YEAR 1983, IT ALSO WOULD HAVE REQUIRED A REDUCTION OF $260 MILLION, OR 45 PERCENT, IN THE AMOUNT SPENT TO ADMINISTER THE AFDC AND MEDI-CAL PROGRAMS. PART OF THE REDUCTION IN ADMINISTRATIVE COSTS WOULD HAVE BEEN ACHIEVED AUTOMATICALLY, TO THE EXTENT THAT THE NUMBER OF PERSONS ELIGIBLE FOR AFDC AND MEDI-CAL WAS REDUCED IN ORDER TO COMPLY WITH THE MEASURE. THE REMAINING REDUCTIONS WOULD HAVE HAD TO BE ACHIEVED BY REDUCING EXPENDITURES FOR STATE AND COUNTY PERSONNEL EMPLOYED TO ADMINISTER THESE PROGRAMS AND OTHER OPERATING EXPENSES.

FINALLY, THE REDUCTION OF FEDERAL EXPENDITURES IN CALIFORNIA THAT WOULD HAVE RESULTED FROM IMPLEMENTATION OF PROPOSITION 41 IN 1983 WOULD HAVE BROUGHT ABOUT, OVER TIME, A REDUCTION IN STATE AND LOCAL TAX REVENUES IN THE GENERAL MAGNITUDE OF $250 MILLION PER YEAR.

C. OPTIONS FOR ACHIEVING BENEFIT REDUCTIONS

IF PROPOSITION 41 IS APPROVED BY THE VOTERS, THERE ARE PRIMARILY THREE WAYS IN WHICH THE LEGISLATURE COULD ACHIEVE THE REQUIRED REDUCTIONS IN BENEFIT EXPENDITURES. EACH OF THESE OPTIONS WOULD HAVE SOMEWHAT DIFFERENT FISCAL EFFECTS ON THE STATE AND COUNTY GOVERNMENTS. SPECIFICALLY, THE LEGISLATURE COULD:

- LIMIT ELIGIBILITY. TO THE EXTENT PERMITTED BY THE FEDERAL GOVERNMENT, THE LEGISLATURE COULD REDUCE OR ELIMINATE THE ELIGIBILITY OF CERTAIN INDIVIDUALS AND FAMILIES FOR AFDC AND MEDI-CAL BENEFITS. WHILE LIMITING ELIGIBILITY WOULD REDUCE FEDERAL AND STATE GENERAL FUND EXPENDITURES, IT COULD ALSO RESULT IN INCREASED COUNTY COSTS. THIS IS BECAUSE UNDER SECTION 17000 OF THE STATE'S WELFARE AND INSTITUTIONS CODE, CALIFORNIA'S 58 COUNTIES ARE REQUIRED TO PROVIDE SUPPORT, INCLUDING CASH AND MEDICAL CARE, FOR INDIGENT AND INCAPACITATED PERSONS WHO DO NOT RECEIVE ASSISTANCE FROM OTHER SOURCES.
- REDUCE BENEFITS. IN ORDER TO STAY WITHIN THE EXPENDITURE LIMITS ESTABLISHED BY THE MEASURE, THE LEGISLATURE COULD REDUCE OR ELIMINATE SOME OR ALL OF THE 30 MEDI-CAL BENEFITS THAT ARE NOT REQUIRED BY FEDERAL LAW. THE LEGISLATURE COULD ALSO REDUCE THE LEVEL OF AFDC GRANTS. IN FACT, IT PROBABLY WOULD NOT BE POSSIBLE TO REDUCE PER CAPITA EXPENDITURES UNDER AFDC TO 110 PERCENT OF THE AVERAGE FOR THE OTHER 49 STATES WITHOUT REDUCING GRANT LEVELS. FOR EXAMPLE, IF THE MEASURE HAD BEEN IN EFFECT DURING 1982-83, IT WOULD HAVE BEEN NECESSARY TO REDUCE THE MONTHLY AFDC GRANT FOR A FAMILY OF THREE WITH NO OTHER INCOME FROM $506 TO BETWEEN $223 AND $405 (DEPENDING ON WHAT OTHER PROGRAM REDUCTIONS WERE MADE TO IMPLEMENT THE MEASURE). SOME FAMILIES WITH OTHER SOURCES OF INCOME MIGHT NO LONGER QUALIFY FOR AN AFDC GRANT IF THE GRANT LEVEL WERE REDUCED. SUCH FAMILIES, HOWEVER, MIGHT

QUALIFY FOR ASSISTANCE FROM THE COUNTIES, THEREBY INCREASING COUNTY COSTS.

UNDER CURRENT LAW, ANY REDUCTION IN THE AFDC MAXIMUM PAYMENT AMOUNT WOULD AUTOMATICALLY REDUCE EXPENDITURES UNDER THE MEDI-CAL PROGRAM BY INCREASING THE AMOUNT OF HEALTH CARE COSTS THAT BENEFICIARIES WHO DO NOT RECEIVE CASH ASSISTANCE WOULD HAVE TO PAY BEFORE THEY COULD RECEIVE MEDI-CAL BENEFITS.

- REDUCE PROVIDER REIMBURSEMENT RATES. THE LEGISLATURE COULD REDUCE REIMBURSEMENT RATES FOR SOME OR ALL PROVIDERS OF MEDI-CAL SERVICES (FOR EXAMPLE, PHYSICIANS AND HOSPITALS) IN ORDER TO CONTAIN PROGRAM COSTS WITHIN THE OVERALL LIMITS ESTABLISHED BY THE MEASURE.

D. SUMMARY

IN SUMMARY, THE NET EFFECT OF THE MEASURE WOULD BE TO REDUCE COMBINED STATE AND COUNTY EXPENDITURES, BEGINNING JULY 1, 1986. IT IS IMPOSSIBLE AT THIS TIME, HOWEVER, TO DETERMINE THE SIZE OF THE REDUCTION AND THE IMPACT OF THE MEASURE AT DIFFERENT LEVELS OF GOVERNMENT. WHILE THE MEASURE WOULD REDUCE EXPENDITURES UNDER THE SPECIFIED PUBLIC ASSISTANCE PROGRAMS BY SUBSTANTIAL AMOUNTS, THESE REDUCTIONS WOULD BE PARTIALLY OFFSET TO AN UNKNOWN EXTENT BY (1) INCREASED COSTS UNDER PROGRAMS THAT ARE NOT SUBJECT TO THE MEASURE'S LIMITATIONS AND (2) REDUCED TAX REVENUES RESULTING FROM THE REDUCTION IN FEDERAL EXPENDITURES WITHIN THE STATE. ON BALANCE, IT IS LIKELY THAT IF THIS MEASURE IS APPROVED, STATE EXPENDITURES WOULD BE REDUCED AND COUNTY EXPENDITURES WOULD BE INCREASED.

ATTACHMENT I

PROGRAMS SUBJECT TO LIMITS UNDER PROPOSITION 41

PROPOSITION 41 LIMITS EXPENDITURES FOR SPECIFIED PROGRAMS IN PART 3 OF THE WELFARE AND INSTITUTIONS CODE, AS FOLLOWS:

PROGRAMS SUBJECT TO LIMITATION

- AFDC, INCLUDING FAMILY GROUP, UNEMPLOYED PARENT, FOSTER CARE, STATE-ONLY AFDC-U, WORK INCENTIVE PROGRAM, SAN DIEGO WORK EXPERIENCE PROGRAM, SUPPORTED WORK PROGRAM, EMPLOYMENT PREPARATION PROGRAM, EMPLOYMENT TRAINING PROGRAM, AND CALIFORNIA WELFARE EMPLOYMENT SKILLS TRAINING ACT.
- MEDI-CAL, INCLUDING BASIC HEALTH CARE, PREPAID HEALTH PLANS, MEDI-CAL MANAGEMENT, AND FINANCIAL PROVISIONS.
- FAMILY PLANNING.
- SUPPLEMENTAL FOOD PROGRAM.

PROGRAMS SPECIFICALLY EXCLUDED

- CHILD AND SPOUSAL SUPPORT PROVISIONS (SECTION 11475).
- STATE SUPPLEMENTARY PROGRAM (SSP).
- IN-HOME SUPPORTIVE SERVICES.
- COUNTY SOCIAL SERVICES PROGRAMS.
- MEDI-CAL BENEFITS PROVIDED TO RECIPIENTS IN SKILLED NURSING AND INTERMEDIATE CARE FACILITIES (SUBDIVISIONS C AND N OF SECTION 14132).
- ADULT DAY HEALTH CARE PROGRAM.
- NONMEDICAL OUT-OF-HOME CARE FACILITIES (CHAPTER 6.5).

PROGRAMS LIKELY TO BE EXCLUDED

- ABUSE OF THE ELDERLY AND OTHER DEPENDENT ADULTS.
- SPECIAL CIRCUMSTANCES FOR AGED, BLIND, AND DISABLED.