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Congress Cuts Federal Aid, Leaving the May Revision Short \$1.9 Billion

Leaders in the U.S. House of Representatives cut \$24 billion in Medicaid assistance to the states amid growing concerns about the size of the federal deficit. For California, this means a loss of \$1.9 billion in federal aid and a corresponding hole in the Governor's May Revision.

In January, the Governor's initial spending plan for the state assumed \$6.9 billion in federal funds to help close a \$19.9 billion Budget gap. This figure was reduced to \$3.4 billion in the May Revision, following less-than-successful trips to Washington, D.C., by the Governor and legislative leaders to secure the \$6.9 billion. It now appears that California will receive roughly \$1.5 billion for the upcoming fiscal year.

Earlier in the year, there was a strong belief that the increased level of federal Medicaid assistance would be provided, given the increasing demands for health care services among low-income individuals during the recession. (This program is known as Medi-Cal in California.) However, members of Congress are growing concerned about the size of the federal deficit, which has ballooned during the economic downturn. Current estimates place the federal deficit at approximately \$1.5 trillion. As a basis of comparison, this is roughly equal to the total personal income for California in a year.

The Governor's May Revision proposes severe cuts in the Medi-Cal program, including elimination of optional benefits provided by the state, mandatory enrollment in managed care plans, and higher copays for medical services. This loss of federal aid means that the state General Fund will be required to contribute more to support the Medi-Cal program, which would mean even deeper cuts in other General Fund programs. Thus far, however, the Legislature has rejected most of the Governor's May Revision cuts, proposing instead to increase revenues through fund shifts, borrowing, and a new oil severance tax. If sustained in the Senate, this recent federal action will require further cuts or new revenues for California's Budget for 2010-11.

—*Robert Miyashiro*

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