

## **ABX1-1 Will Put Health Care on a Secure Financial Footing**

Facing a projected \$14 billion budget shortfall, California lawmakers are right to consider how ABX1-1's landmark reforms will affect the deficit. But ABX1-1 brings in new money for health care that could not be used to plug the gap in the general fund, as well as limiting health care costs moving forward. And as the past shows, if it is not passed, short-term cuts without an eye towards systemic reform are likely to increase costs down the road, effectively mortgaging California's health care budget with no end in sight. As a result, Senate passage and voter approval of ABX1-1 are the responsible way to put our health care system on a secure footing.

**ABX1-1's funding mechanisms do not starve the general fund.** The bill creates money for health care by opening up new funding sources that would otherwise go untapped.

- **Employer contributions:** ABX1-1 requires businesses that do not cover their employees to pay a fee to the state. The fee will raise approximately \$2.5 billion each year, with the size of the contribution scaled to the size of the employer. But the logic of the pay-or-play fee only makes sense in the context of health care; these revenues could only be used for health care.
- **Federal funds:** some of ABX1-1's health care expenditures will draw down \$4.4 billion in matching funds from the federal government. Giving employees buying insurance on their own the ability to deduct their health care expenditures from their federal income tax also acts as a de facto injection of federal cash. This money can only be used for health care purposes – failing to pass ABX1-1 leaves money on the table.
- **Hospital fees:** under ABX1-1, hospitals will pay a fee to the state which will then return to them in the form of increased Medi-Cal payments. Hospital organizations currently support the fee, which will generate \$2.5 billion for the state to pay for the corresponding Medi-Cal increases. But again, as a fee, the money would be unavailable for other purposes.
- **Tobacco tax:** a \$1.75 a pack cigarette tax is expected to bring in \$1.5 billion for health care. While in theory tobacco taxes can raise money for any purpose, voters have resisted balancing the budget on the backs of smokers, voting for tobacco taxes only where the money raised goes to health and smoking-cessation programs. For example, polling in 2005 showed 37% of voters in favor of using tobacco tax revenue to expand coverage to all children, 32% preferring to spend the money on emergency rooms, while only 15% supporting use of the funds to extend college scholarships, despite 45% thinking such a program was a good idea.

**ABX1-1 will limit health care costs moving forward.** Disease management and prevention programs will reduce the costs of chronic illnesses to the system. Electronic record-keeping and e-prescribing will reduce administrative costs. Transparency and quality programs will ensure that the state, as well as consumers, buys cost-effective care.

**Last year's budget fight shows that health care cuts lead to short-term savings with long-term costs.** The budget impasse last summer is a preview of what to expect if ABX1-1 doesn't go through – a future of penny-wise, pound-foolish cuts that only increase the deficit in the long run. And since balancing the budget last year required \$700 million in cuts, while this year's tally is \$14 billion, the damage could be even greater if ABX1-1 isn't passed and health care put on the path to long-term stability. Here are some of the programs cut in 2007:

- The prescription drug negotiation program set out by AB 2911, which aims to save money by helping the state get at least a 40% discount on the prescription drugs it purchases, was left unfunded.
- Cuts were made to children's coverage enrollment efforts, leading to more uninsured kids lacking preventive care and higher costs when they do get covered.
- Community clinics, which act as the front line of the public safety net, were underfunded, forcing overreliance on expensive, inefficient emergency-room-only care.

**Finally, ABX1-1 is not a suicide pact.** It does not inflexibly chain the state to billions of dollars of spending regardless of facts on the ground. First, the current budgeting packages in \$170 million as a reserve against unanticipated cost overruns. But even if there isn't enough revenue to cover all of its programs in a given year, the companion ballot initiative gives the legislature broad authority to balance the books and ensure that the most critical programs are funded without driving the state into the red. Even in this worst-case-scenario, there will still be billions more health-care dollars available to prevent the savage cuts of previous years.

Because ABX1-1 will not go into effect until it is approved by the voters in November, it unfortunately cannot fix this year's deficit. But its package of new revenues and cost containment strategies will relieve pressure on the general fund in the future, by insuring that health care is stable and adequately funded, rather than remaining dependant on ad-hoc, year-to-year cuts. Fixing the perennial structural deficits requires the state's spending to be put on a secure footing – which is exactly what ABX1-1 does for health care.

*CALPIRG is a statewide, membership-based organization that stands up to powerful interest, working to win concrete results for Californians' health and well-beings. With researchers, advocates, organizers and students, we advocate on behalf of consumers and all California's residents. For more information about this fact sheet, contact Michael Russo, Health Care Advocate and Staff Attorney, at (213)251-3680 x332, or [mrusso@calpirg.org](mailto:mrusso@calpirg.org).*