



STATE OF THE STATE 2010:

## ESTABLISHING A FAIR AND EQUITABLE FINANCIAL RELATIONSHIP WITH THE FEDERAL GOVERNMENT

**“Federal funds have to be part of our budget solution because the federal government is part of our budget problem. When President Clinton was in office, California got back 94 cents on the dollar from the federal government. Today we get only 78 cents back.”** (Gov. Arnold Schwarzenegger, State of the State Speech, 1/6/10)

**The Governor was clear that federal funds must be a part of the budget solution because the federal government is part of California’s budget problem.** The Governor is committed to building a fair and equitable financial relationship with the federal government. California must be reimbursed for unfunded and under-funded federal mandates and relieved of the overly restrictive maintenance-of-effort requirements placed on our programs that prohibit us from living within our means. Our state must be freed from unfunded mandates to thrive and continue serving the people who need help the most.

**“While acknowledging its responsibility, the federal government is not even funding a 50-50 split of the costs of undocumented immigrants.”** (Gov. Arnold Schwarzenegger, State of the State Speech, 1/6/10)

**The federal government is shortchanging California on the cost of incarcerating undocumented immigrants.** For fiscal year 2009-10, the State of California is expected to spend approximately \$970.3 million on the incarceration of undocumented felons. For fiscal year 2010-11, the state will receive only \$90.6 million in federal funds for this population, that’s only 9.3 percent of California’s costs. If the federal government refuses to provide better control over the nation’s borders and take custody of these individuals and house them in federal prisons, then it must reimburse states for the full cost for providing this public safety service.

**“We can no longer ignore what is owed to us...or what we are forced to spend on federal mandates. We are currently owed \$4.8 billion dollars by the federal government for various programs. We need to work with the feds so that we can fix the flawed formula that demands that states spend money they do not have.”** (Gov. Arnold Schwarzenegger, State of the State Speech, 1/6/10)

**The formula that determines the federal funding ratio for California’s Medi-Cal program is fatally flawed.** The current formula that determines how much the federal government contributes to California’s Medi-Cal program is fatally flawed because it relies on per capita income and a few extremely high wage-earners distorts this and masks a significant number of Californians living in poverty. As a result, California receives the lowest possible federal share for Medi-Cal (50 percent). Other large states have much higher federal reimbursement rates: Florida receives 56.83 percent, Michigan 58.10 percent, Ohio 60.79 percent, Pennsylvania 54.08 percent, and Texas 60.53 percent. If California received a more equitable rate that matched the other populous states and reflected the national average (57 percent), it would result in an additional \$1.8 billion annually.

**California has erroneously paid for federal programs that deserve reimbursement.** Due to an error by the Social Security Administration, the Medi-Cal program paid for individuals who should have been covered by Medicare for over 30 years. This was a nationwide error and California’s repayment equals approximately \$700 million. In addition, since the inception of the Medicare Part D prescription drug program, California has been penalized by a flawed methodology that does not reflect its true costs and as a result, California has paid more to the federal government than before the program’s inception. A correction in this flawed formula would result in an additional savings of \$75 million annually.

**California covers a larger share of vulnerable populations that should otherwise be afforded federal funding.** The portion of California's foster caseload receiving federal funding has slowly eroded since 1996 because of an outdated cost-of-living index. California's family income has increased significantly since 1996 and this outdated standard arbitrarily excludes many children from receiving federal funding. A federal change would bring California's foster care program an additional \$86.9 million annually. Finally, the federal government has never covered more than 20 percent of its federally mandated Special Education Services. When coupled with a maintenance of effort, the federal government needs to augment California's grant by more than \$1 billion each year in order to fully fund its federal mandates.

**"Now Congress is about to pile billions more onto California with the new health care bill."** (Gov. Arnold Schwarzenegger, State of the State Speech, 1/6/10)

**Under every scenario, the federal health care legislation being debated would cost California's General Fund an additional \$3 billion to \$4 billion annually.** If the federal government is going to mandate that California expand healthcare coverage, the Governor remains adamant that federal funds must be provided to cover the state's costs for providing this federal mandate. The Governor, while recognizing the need for comprehensive health care reform, also knows that success requires adequate funding. Without full federal reimbursement for this critical reform effort, health care reform will fail in California and deny millions of individuals the health care they rightfully deserve.