



Legislative Update

January 2008

AB 1 x (Nunez) to have Senate Health Committee Hearing

The Senate Health Committee has set **January 23rd** as the date to hear AB 1x (Nunez), the Speaker's healthcare reform plan. If the Senate Health Committee passes the bill on the 23rd, the bill will then be sent to the Senate Appropriations Committee for hearing and then on to the Senate Floor for a vote of the full Senate.

Governor Schwarzenegger has indicated his support for the measure, and if passed by the Senate, he would likely sign it into law. Funding would need to be approved by the voters under a ballot initiative that has been filed and proponents hope to qualify for the November 2008 ballot.

NAIFA-California is continuing to work with CAHU to address health insurance agents' concerns regarding AB 1x (Nunez). Although NAIFA-California and CAHU have been able to obtain several amendments to address some of our concerns regarding the Medical Loss Ratio and working to prevent adverse risk selection in the individual market, we continue to have concerns with a number of issues.

Individuals receiving premium assistance in the form of tax credits should not be segregated into government run purchasing pools with, at best, limited benefit choices and higher premiums, merely because they are eligible for premium assistance. ABX1-1 would redline those receiving premium assistance through tax credits into the purchasing pool to be run by the Managed Risk Medical Insurance Board (MRMIB). We believe a system can – and should – be developed to enable those receiving tax credits to efficiently use them in or out of the pool, providing these Californians with greater choice in benefit designs while insuring little or no fraud. Other states and the federal government currently provide tax credits. These programs can serve as examples of how to effectively implement this type of premium assistance.

Additionally, ABX1-1, as drafted, allows MRMIB to exempt whole classes of individuals from the mandate to purchase minimum coverage, but fails to provide meaningful criteria to the Board in implementing this authority. This could undo many of the legislation's provisions aimed at preventing adverse risk in the individual market. The result of too broad of a policy of exemption would be higher premiums for those participating in the individual market as exempted individuals would purchase coverage only after they have need of medical services.

NAIFA-California and CAHU believe "minimum coverage" must be defined in the bill as opposed to being left for development later by MRMIB. Without a definition of the minimum benefits package it is impossible to assess the cost impact of this bill on individuals, employers, California tax payers and those currently enrolled in government funded health coverage. The cost for the program

today could run from the \$14.4 billion price tag suggested by the author and the Governor to billions more depending upon the benefit plan design(s) selected.

NAIFA-California and CAHU also remain concerned that the funding for the health care program is precarious. Over \$4 billion of the funding is to come from wage based taxes. However, medical costs have risen at twice the rate of wage growth for the past twenty years and this trend is likely to continue. Assuming costs continue to rise in the two years before full implementation of ABX1-1, this portion of the funding package is likely to be inadequate from day one. ABX1-1 and the accompanying ballot initiative need to account for this discrepancy in funding.

NAIFA-California and CAHU will continue to attempt to address these concerns on behalf of its member agents.

Stay Tuned...

The California Healthcare Foundation has prepared a comprehensive matrix on AB 1x (Nunez) and related proposals that may be of interest. To review the matrix, please see <http://www.calhealthreform.org/pdf/comparison.pdf>.

Governor Proposes Surcharge on California Insurance Policies to Fund Fire Efforts

In an effort to address the costs of fire emergencies that are a yearly occurrence in many parts of the state, the Governor is also proposing pass-through surcharge legislation. Specifically, it would provide for a 1.25% surcharge on all commercial and homeowners insurance policies in the state. It is estimated that this would generate roughly \$125-150 million/year to fund firefighting services and equipment.

Republicans have called the “surcharge” a tax suggesting that it is wrong to increase the burden on taxpayers’ in order for them to obtain services they are already paying to receive. Fire services – staffing and equipment – have always been General Fund expenditures paid by the state from property taxes. Republicans have also cited local government “development” fees that homeowners and businesses already pay as well as “Special Assessment” districts that collect additional property taxes to support local fire protection. They are questioning how many times homeowners and businesses are they going to have pay for the same service.

A number of Democrats are also unhappy with the proposal – largely related to equity concerns. Democrats, including Senator Mike Machado – Chair of the Senate Banking, Finance & Insurance Committee – are concerned that their constituents would be funding firefighting services in other parts of the state that are more prone to fires rather than seeing the funds go towards services that would benefit their communities more adequately. Senator Machado’s concern may indicate the rough road the legislation has going forward, particularly because the Governor’s plan would ultimately have to go through the Senator’s Committee for hearing.

Stay Tuned...

2008 Budget Overview

Last Thursday Governor Arnold Schwarzenegger released his much anticipated budget plan – a harsh \$101 billion spending plan that cuts virtually every facet of state government in an effort to close the projected \$14.5 billion budget deficit. As promised, Schwarzenegger has proposed a

10% across-the-board cut for all state agencies, departments, boards and commissions. More specifically, the plan proposes some of the following:

- Reduction in state employee positions – 7,086 over the next 18 months
- Closing 48 state parks
- Suspension of schools' constitutional funding guarantee under Proposition 98
- Early release of 28,408 lower-risk prisoners from state and local facilities
- Medi-Cal spending cuts through reduction in providers' rates
- Sale of the remaining Economic Recovery Bonds authorized by voters in 2004 and deferment of the early debt payment on the bonds scheduled for 2008-09
- Executive, Legislative & Judicial spending cuts - \$2.1, \$26.5, and \$245.6 million respectively

In addition to laying out the details of the plan, the Governor also declared a “Fiscal Emergency” and called a special session of the Legislature to address the current year \$3.3 billion budget gap. Under the provisions of Proposition 58, the Governor has the authority to declare a fiscal emergency if he determines that the state faces substantial revenue shortfalls or expenditure increases. The Governor is then required to call a special session of the legislature and to propose legislation to address the fiscal emergency. If the legislature does not approve and send legislation to the Governor to address the fiscal emergency within 45 days, it is prohibited from acting on any other bills or adjourning in joint recess until such legislation is passed.

This will be the Governor's fifth Budget since taking office in November 2003. Plagued by the \$14 billion budget deficit – not unlike the situation he faced when taking office in 2003 – he has announced his intention to revisit the idea of a Constitutional Amendment that would institute a state spending cap. The cap would be structured so that expenditures would automatically be reduced when tax revenues increase more slowly than usual. In more prosperous times, it would direct extra funds to a rainy day account to provide stability for spending in the future. This approach to fixing the deficit is similar to his plans in 2004 that were rejected by the Legislature and voters the following year when they were placed on the ballot for consideration.

And although Schwarzenegger has cited the need for fiscal restraint and cuts in the coming year(s), he continues to push healthcare reform suggesting that the state's fiscal problems should not undercut a universal health care plan he wants voters to approve in November. The plan, which is estimated to cost the state over \$14 billion, is currently pending the Senate's consideration.

2008 is sure to be a year of great turmoil as the Governor and Legislature battle it out over how best to address the deficit. The Governor's proposed budget makes significant cuts to all sectors of government in an effort to avoid raising taxes. However, solving the \$14 billion deficit may be challenging at best without raising taxes and having to hold the line on proposed cuts.

Stay tuned as the year of cuts unfolds...

Nonpartisan Legislative Analyst Critical of Governor's Budget Proposal

The state's nonpartisan Legislative Analyst (LAO) Elizabeth Hill released her office's report reviewing the Governor's budget proposal on Monday – a report that was critical about the Administration's failure to prioritize which programs are critical for California's future. Specifically, the LAO cited the across-the-board 10% reductions as disastrous – leaving programs crippled and in a position to have to offer lower quality services to the public. She suggested that vital payments could be made, with reduced discretionary spending rather than across-the-board cuts.

She also encouraged the Legislature to consider eliminating tax credits or adding fees to raise more revenue.

This came as the second blow to the Administration's prospects for addressing the roughly \$14 billion deficit. Also on Monday, Fitch Ratings placed \$43 billion worth of outstanding state bonds on a negative watch. Such an announcement could lead to a downgrade in California's A-plus bond rating, one of the lowest among state governments.

For more information on the LAO's report, please see http://www.lao.ca.gov/2008/budget_overview/08-09_budget_ov.aspx.

Schwarzenegger Endorses Proposition 93

According to the Governor, California voters were too stringent in enacting legislative term limits. As such, he has announced his endorsement of Proposition 93 that is slated for the February 5th ballot. In announcing his endorsement of the measure, he cited reasons such as enabling lawmakers to gain more expertise, reducing dependence on special interests, curtailing the need for constant fundraising and allowing incumbents to focus on public policy as support for his decision.

The announcement comes as a surprise to many, particularly given the Governor's indication that he would not support the measure unless it was accompanied by a redistricting proposal – which it was not. It also comes as a surprise to the California Republican Party, Insurance Commissioner Steve Poizner and other prominent republican members who came out in staunch opposition to the measure.

California's existing term limits, passed by voters in 1990, allow legislators to serve up to eight years in the Senate and six in the Assembly. In contrast, Proposition 93 would reduce the maximum number of years from 14 to 12, but allow all to be served in one house or a combination of both. The most controversial part of the initiative, however, is the ability for incumbents to serve at least one extra term. Assembly Speaker Fabian Núñez, D-Los Angeles, and Senate President Pro Tem Don Perata, D-Oakland, would receive an extra six years and four years in office, respectively.

If you have any questions regarding any of the topics mentioned in this report, or others not mentioned, please contact Shari McHugh, Legislative Advocate for NAIFA-California, at 916/440-0850. Thank you!