California board votes to drop healthcare coverage for 60,000 children

By Patrick McGreevy and Evan Halper

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Reporting from Sacramento - The announcement by state officials that California has enough cash to stop paying bills with IOUs did little to take the sting out of other budget news Thursday: Tens of thousands of poor children are about to lose their healthcare coverage.

A state board voted Thursday to begin terminating health insurance for more than 60,000 children Oct. 1 as a result of the budget amendments signed into law recently by Gov. Arnold Schwarzenegger.

Those children would be up for an annual review of their coverage next month, but instead they may be dropped from the California Healthy Families program under the action by the state Managed Risk Medical Insurance Board.

The board is scrambling to secure funding from other sources, including money set aside by voters for early childhood education, but so far it has come up short.

If additional funds are not found, board officials said, the program could ultimately drop 669,296 children in the current fiscal year, which ends June 30, 2010. Currently, 921,000 people age 18 and younger are enrolled in Healthy Families.

"There are not sufficient funds for the services we are providing," said board chairman Cliff Allenby. "We will work to do what we can do" to find additional money.

The budget cuts made by Schwarzenegger and the Legislature left the Healthy Families program with a $194-million shortfall.

On Thursday, the First 5 California Commission, which administers tobacco-tax funds that voters directed toward early childhood education, agreed to provide $81.4 million for Healthy Families. That is enough to cover 200,000 children through next June, but not enough to stop the vote to begin removing youngsters from the program.

Several advocates for children urged the board to put off a decision and find other ways to compensate for the budget shortfall.

"Families are extremely confused and frightened about what is going to happen to their kids," said Suzie Shupe, executive director of California Children's Health Initiatives.

Clifford Sarkin, a senior policy associate with the Children's Defense Fund California, called the board's vote "devastating. . . . During these economic times, these families rely on the Healthy Families program more than ever."

Meanwhile, a coalition of advocates for the disabled announced Thursday that it has filed a lawsuit against Schwarzenegger to force the restoration of millions of dollars he cut with line-item vetoes from programs that help the sick and disabled. A similar suit was filed this week by state Senate Leader Darrell Steinberg (D-Sacramento).

Despite the money cut from the current budget, California will need to borrow $10.5 billion this year, according to state Treasurer Bill Lockyer and Controller John Chiang.

The borrowing would allow the state to pay all of its bills between late summer and next spring, a period when state accounts typically run short. The loan would be repaid when the usual flood of tax receipts arrives after April 15.

If approved by a state financial board later this month, the borrowing would allow California to stop issuing IOUS -- and begin paying existing ones -- by Sept. 4. Lockyer said a loan would "rid us of the financial hardship and stigma caused by IOUs."

The state controller's office began issuing the notes July 2, when its projections showed the state would not have enough cash to pay all of its bills.

The warrants went to vendors, local governments, students on financial aid, some welfare recipients and taxpayers who were due refunds.

The state has issued 327,000 IOUs totaling $1.95 billion.

Officials had planned to wait until October to begin redeeming IOUs, but better cash projections than expected will allow that to start sooner.

Chiang said Thursday that the issuance of IOUS, for only the second time since the Great Depression, has been a "difficult, and frankly, shameful chapter in the state's history."

patrick.mcgreevy@latimes.com

evan.halper@latimes.com

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