

November 21, 2007

Hon. Edmund G. Brown Jr.
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Krystal Paris
Initiative Coordinator

Dear Attorney General Brown:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative entitled "The California Health Security Plan" (A.G. File No. 07-0055, Amdt. #1-S). This measure would amend the State Constitution to establish The California Health Security Plan (CHSP) to expand health care coverage for California residents.

Background

Health Coverage and the Uninsured. The majority of Californians receive health coverage through insurance provided through (1) their employer or the employer of a family member, (2) the purchase of individual health insurance policies, or (3) government programs such as Medicaid (known as Medi-Cal in California) or Medicare. (An estimated total of roughly \$200 billion will be spent on health care in California in 2007 excluding workers' compensation claims.) However, some California residents lack health insurance coverage. Estimates vary regarding the size of the uninsured population, depending on how the uninsured population is defined. For example, one survey indicates that in 2003 about 4.9 million Californians were uninsured at any given time but that about 6.6 million were uninsured at some point during the year.

Some persons who lack health coverage are eligible to enroll in health coverage provided by state programs such as Medi-Cal, but have chosen not to participate in them. Other uninsured persons are not eligible to enroll for such coverage. Persons who are uninsured for either reason may qualify to receive free or low-cost medical assistance from counties, which are generally responsible under state law for providing health care for low-income persons who lack health coverage. Other uninsured persons rely on free or low-cost health care from medical providers, including private clinics, hospitals, or physicians, often referred to as charity care.

If a worker's injury or sickness is work related, then workers' compensation insurance bears the cost of providing medical treatment and other benefits within specified limitations. All California employers must provide workers' compensation benefits to their employees including: (1) medical care, (2) temporary disability benefits, (3) permanent disability benefits, (4) vocational rehabilitation benefits, and (5) death benefits. Under state law, businesses, as well as state and local governments, must purchase workers' compensation insurance or self-insure to pay these expenses. In 2006, costs for workers' compensation insurance were potentially as much as \$20 billion for all California employers.

Proposal

This measure amends the Constitution to establish the CHSP to expand health care coverage for California residents and to implement the principle of equal health care for all CHSP members. The measure requires that CHSP be administered to achieve the goals of equal outreach, access, treatment, and outcomes for all persons eligible to receive services under the plan. Furthermore, the measure requires CHSP to be evaluated based on data to determine the extent to which these goals are being achieved by the plan. The measure would also require that the privacy of medical records be maintained and that beneficiaries have the right to obtain written copies of their health care records.

The measure requires the Legislature and the Governor to implement CHSP within one year, following its approval by the voters and certification of the election results by the Secretary of State (SOS). In order for CHSP to actually become effective, several legislative and administrative steps, which we discuss later, would have to be taken.

Eligibility for the Plan. All current residents who have physically resided in the state for ten months of the previous year are eligible to enroll in CHSP. The CHSP will automatically enroll and deliver membership cards to persons and their dependents who have both filed an income tax return in California and have a California address.

CHSP Administration. The measure creates the California Health Security Board (CHSB) to administer plan benefits. The first CHSB would be appointed by the Legislature within 60 days of certification of passage of this measure by SOS. The CHSB would be comprised of members who meet certain requirements specified in the measure, with one member from each of the state's 53 congressional districts. Thereafter, election of CHSB's 53 members would occur simultaneously with the presidential election. The CHSB's responsibilities include:

- Determining what health care is classified as medically necessary.
- Making an annual report to the people of California on the state of their health security.

The CHSB is empowered to negotiate prices for all goods and services purchased by the plan, although, the measure does not require that the CHSB perform this function.

Benefits. Under this measure, the CHSP pays for the health care of members and covers all health care deemed medically necessary by the CHSB. The measure specifies that "health care" includes all treatments, prescription drugs, devices, emergency care, preventive measures, rehabilitative care, long-term care, mental healthcare, dental care, vision care, women's healthcare, and other care classified as medically necessary by the CHSB. The measure also specifies that health care includes care for work-related injuries that generally are currently covered under workers' compensation.

Funding. The plan shall be fully funded by such general revenues and sources as the Legislature may enact. The measure prohibits the use of premiums, co-payments, or deductibles as means to pay for CHSP or limit its costs.

Fiscal Effect

Major Implementation Decisions Left to Legislature and Governor. This measure leaves many of the decisions on how to implement CHSP to the Legislature and the Governor. For example, the Legislature and Governor would determine whether to incorporate existing federal (federal approval would be necessary to make such a change), state and local health care programs into CHSP or whether to have CHSP "wrap around" these existing health care programs. Furthermore, the Legislature and Governor would potentially have to determine how CHSP would replace or wrap around private health insurance, and workers' compensation, or whether some form of integrated system would be implemented. Depending on whether and how the Legislature and Governor incorporate existing health care programs and their associated funding streams into CHSP, the size and complexity of CHSP would vary.

Implementation Would Determine Net Fiscal Impact. Because the CHSP would provide insurance to most or all of the 4.9 million currently uninsured Californians, the measure would result in increases in annual state and local government expenditures on health care, potentially in the low tens of billions of dollars. The costs to state and local government would depend on a number of factors, including the following:

- Which federal, state, and county health care programs were incorporated into the new health care system.
- Whether private health insurance and workers' compensation were incorporated into the new health care system.
- How implementation of the new system changed the specific benefits available to health care consumers, as well as consumers' access to those benefits.

- How the new system affected the utilization of health care services by individuals, including by those who are currently uninsured.
- The magnitude of any potential administrative savings over the long term and other efficiencies that could be achieved under the system, such as simplification of billing processes or better prices on prescription drugs due to bulk purchasing arrangements.
- Whether the new system effectively promotes primary care thereby resulting in reduced use of emergency rooms.
- Future decisions by the Legislature and Governor to increase or decrease the level and source of funding available to support the system.

Some Fiscal Effects Can Be Identified. Some components of the measure have identifiable costs, which are discussed below.

The measure would likely result in one-time costs, potentially in the hundreds of millions of dollars, to purchase computer systems to support the eligibility determination and enrollment process for CHSP. Furthermore, the measure would likely result in ongoing costs potentially of a few hundred million dollars annually to perform eligibility determinations for California residents and enroll qualified California residents and income tax filers and their dependents in the plan and provide them with their membership cards.

The CHSB would incur administrative and operational costs as it performed its duties, such as preparing the annual report on Californians' health security. These costs could be in the low millions of dollars to several tens of millions of dollars annually depending on the range of functions the board performs.

Overall Net Fiscal Impact Uncertain. While this measure would have some identifiable costs to state and local government, many critical decisions regarding its structure and implementation would be made by the Legislature and the Governor. Expanding health care coverage to the uninsured would result in costs potentially in the low tens of billions of dollars. The costs could be greater or lesser than this depending on actions taken by the Legislature and Governor to structure the program.

Summary

The measure would have the following major direct fiscal impact:

- Net unknown costs to state and local government, potentially in the low tens of billions of dollars; these costs would be greater or lesser depending on actions taken by the Governor or Legislature in structuring the health coverage expansion program.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

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Director of Finance