Senate Appropriations Committee Fiscal Summary
Senator Christine Kehoe, Chair

810 (Leno)

Hearing Date: 5/4/2009 Amended: 4/23/2009
Consultant: Katie Johnson Policy Vote: Health 7-4

BILL SUMMARY: SB 810 would establish the California Healthcare System (CHS), an entity that would provide affordable and comprehensive health care coverage for all Californians.

Fiscal Impact (in thousands)

Major Provisions	2009-10	2010-11	2011-12	Fund
CHS Implementation	Major implementation costs in the billions			General
	at least $200 billion annually ongoing			

STAFF COMMENTS: This bill meets the criteria for referral to the Suspense File.

This bill would establish the CHS, which would be administered by the California Healthcare Agency under the control of a Healthcare Commissioner appointed by the Governor and confirmed by the Senate. The CHS would provide specified health care benefits for which all Californians would be eligible. The CHS would, on a single-payer basis, negotiate for or set fees for health care services and would pay claims for those services. This bill would require the commissioner to seek all necessary federal waivers, exemptions, agreements, and legislation to implement the CHS. This bill would prohibit the sale of any private health care service plan or health insurance policy in the state. This bill would provide that a resident with an income at or below 200% of the Federal Poverty Level (FPL) would be eligible for benefits like those provided by California's existing Medi-Cal program. This bill would create various offices and boards to aid in the administration of the CHS.

This bill would specify that only the provisions relating to the Premium Commission would become operative on January 1, 2010,

and that the remaining provisions would become operative on the date that the Secretary of California Health and Human Services states that sufficient funding exists to implement the CHS. This bill would require that the CHS become fully operative 2 years from that date.

This bill is nearly identical to SB 840 (Kuehl), which the Governor vetoed in 2008 saying, "According to the Legislative Analyst's Office, the bill is estimated to cost $210 billion in its first full year of implementation and cause annual shortfalls of $42 billion. To place this in proper perspective-our state budget deficit this year started at $24.3 billion." Since this bill is nearly identical to SB 840, and as such, would have a similar fiscal impact on the state, it does not address the veto message.

This bill is also similar to SB 921 (Kuehl, 2004), a bill that would have implemented a single-payer health care system. SB 921 was held in the Assembly Health Committee.

In response to SB 921 in 2005 and to SB 840 in 2008, the Lewin Group and the Legislative Analyst's Office (LAO), respectively, analyzed the concept of a single-payer government health care entity with respect to California.

The LAO report analyzed SB 840 and its funding mechanism SB 1014 (Kuehl, 2008), which would have imposed a combined 12 percent tax on employers and employees for the purposes of providing a funding source for SB 840, as a comprehensive "single-payer proposal" and assumed an implementation date of January 1, 2011. The analysis predicted a net shortfall of $42 billion in the FY 2011-2012, the first full year of implementation, and $46 billion in 2015-2016, due to a faster rate of growth for health benefits costs relative to SB 1014 revenues. The LAO estimated that it would take a tax of 16 percent to mitigate the predicted shortfall in revenues. The LAO estimated annual costs of $210 billion in the first year of implementation, which would grow over subsequent years to $250 billion in 2015-2016. The LAO assumes that the state would realize savings due to reduced physician and hospital administration costs and that the system

would be able to operate at relatively low administration costs. The analysis also assumes that federal, state, retired state employee health contributions and local government contributions would shift to the single-payer system.

The Lewin Group's analysis of SB 921 estimated costs would be $167 billion in 2006 and would increase to $280 billion in 2015. The group assumed similar revenues to those later proposed in SB 1014 in 2007. It is important to note that the Lewin Group based its estimates on 2004 cost data and that health care costs have increased faster than anticipated.

Unlike previous bills, there is no funding source identified for the implementation of this bill. Thus, there would be considerable General Fund pressure in the hundreds of billions of dollars. Also, were there a funding mechanism, the pressure on the General Fund would continue to exist, although to a lesser extent, because the General Fund would be responsible for providing supplemental moneys in the event of a shortfall.

It is likely that the costs associated with the implementation of this bill would result in costs similar to those projected in both the LAO and Lewin Group analyses. However, the LAO and Lewin Group analyses do not take into consideration several effects of the transition between California's current health care system and a single-payer system. For example, there would likely be significant up-front implementation costs, labor market disruptions, as well as reduced tax revenue from insurance companies. It is also possible that the provisions in this bill would make the state ineligible for federal Medicaid and Children's Health Insurance Program (CHIP) federal matching funds if the Centers for Medicare and Medicaid (CMS) do not approve waivers of federal Medicaid law. Medi-Cal, California's Medicaid program, and the Healthy Families Program, California's CHIP, receive federal funds which match state General Funds to provide health care benefits to low-income individuals.