

**AGENDA ITEM: Financial Update**

- **Overview of Governor’s Proposed Budget for Fiscal Year (FY) 2013/14**

**ENCLOSURES:** • None

**OTHER MATERIAL RELATED TO ITEM:** None

**Issue:**

Kiyomi Burchill, Assistant Secretary, CA Health and Human Services Agency, and Carla Casteneda, CA Department of Finance, will provide an overview of the Governor’s 2013/14 Budget.

**Background:**

In 2011, the state faced \$20 billion in expected annual gaps between its revenues and spending. Just two years later, California is on its most stable fiscal footing in well over a decade. With the tough spending cuts enacted over the past two years and new temporary revenues provided by the passage of Proposition 30, the state’s budget is projected to remain balanced for the foreseeable future.

The Budget invests in both K-12 and higher education. These investments are critical to provide Californians, regardless of their financial circumstance, access to high-quality academic and career education, improve educational attainment, and support critical thinking and civic engagement — thereby strengthening the foundation for sustainable growth.

The Budget also expands health care coverage to comply with the Patient Protection and Affordable Care Act. Implementing federal health care reform will require an assessment of how much funding is currently spent by counties and what should be redirected to pay for the shift in health care costs to the state. The state will also need to consider how these changes would impact remaining county obligations to provide care to those individuals who remain uninsured, as well as public health programs.

As such, the implementation of health care reform will require a broader discussion about the future of the state-county relationship. The roles and responsibilities will need to be clearly articulated.

Despite the dramatic budgetary changes of the past two years, there remain a number of major risks and pressures that threaten the state’s new-found fiscal stability, including billions of dollars in debt accumulated in prior years.

Achieving Fiscal Balance

When Governor Brown took office, the state faced a \$26.6 billion budget problem and estimated annual gaps between spending and revenues of roughly \$20 billion. The 2011/12 and 2012/13 budgets rejected the past reliance on borrowing and deferrals. These two budgets addressed the \$20 billion annual deficit through spending cuts, primarily in corrections, health and human services, and education. In total, these budgets provided three dollars of spending cuts for every dollar in temporary tax revenues approved by the voters.

The two budgets achieved the following goals:

- Realigning public safety programs to bring government closer to the people.
- Implementing a downsizing plan for the California Department of Corrections and Rehabilitation. The plan is intended to satisfy the United State Supreme Court's order requiring reduced crowding and end federal court oversight of our prison system. It will reverse the trend of prison spending that has consumed a growing percentage of the General Fund budget. Over time, spending will decline from 11 percent to 7.5 percent of the General Fund.
- Eliminating redevelopment agencies to increase funding for schools, police, fire, and other core local services.
- Refocusing the state's welfare program. The total number of months an adult can receive a monthly cash benefit has been reduced from 60 months to 48 months. Furthermore, the benefit is only provided to the adult for up to 24 months unless the individual is meeting federal work requirements. The Budget provides specific funding to implement these reforms.
- Reducing the state workforce by more than 30,000 positions. The state workforce is at its lowest level as a share of the state's population in almost a decade, and California already had one of the nation's lowest levels of government employment.
- Overall General Fund spending is down from its peak of \$103 billion in 2007/08 to \$93 billion in 2012/13, a decrease of \$10 billion, or ten percent. As a share of the economy, General Fund spending in 2011/12 and 2012/13 remains at its lowest level since 1972/73.
- Updated Proposition 63 Revenue Estimates: The budget estimates \$1.2 billion in Proposition 63 revenues for the 2011-12 fiscal year, and projects annual revenues of \$1.3 billion for 2012/13, and \$1.2 billion for 2013/14. The budget proposes no major changes in the Mental Health Services Oversight and Accountability Commission budget.