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TAB SECTION: 2

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DATE OF MEETING: 1/23/14

PREPARED BY: Hoffman

DATE MATERIAL PREPARED: 1/09/14

AGENDA ITEM: Overview of Governor's Proposed Budget for Fiscal Year (FY) 2014/15

ENCLOSURES: • None

OTHER MATERIAL RELATED TO ITEM: None

Presentation:

Kiyomi Burchill, Assistant Secretary, CA Health and Human Services Agency, and Carla Castaneda, Principal Program Budget Analyst, CA Department of Finance, will provide an overview of the Governor's 2013/14 Budget.

Background:

When Governor Brown took office in 2011, the state faced a \$26.6 billion immediate budget problem and estimated annual gaps between spending and revenues of roughly \$20 billion. The last three budgets addressed the \$20 billion annual deficit through temporary taxes approved by the voters and 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.

Three years later, the state is now on its most stable fiscal footing in more than a decade. While the overall economy has modestly improved in fits and starts, the stock market soared through most of 2013. Consequently, 2013/14 and likely 2014/15 revenues will be driven upwards on the strength of capital gains. The Budget assumes that the state will receive about \$4 billion in these windfall capital gains revenues above the amount received in "normal" years. Yet, it is clear that capital gains rarely have normal years. Instead, they tend to be extremely volatile: bulleting upwards.

According to the Governor, maintaining the stability of the past year will require fiscal restraint. There are numerous risks, each of which could hit the state's budget to the tune of hundreds of millions, or billions, of dollars. Navigating the risks and pressures will require fiscal discipline so the state maintains the capacity to weather those risks that do materialize.

Continuing to Invest in Education:

Proposition 30 was premised on the need to increase funding for education for the first time since the recession began in 2008. The 2013/14 Budget invested in, rather than cut, education spending. Increasing revenues offer the opportunity for the 2014/15 Budget to advance this reinvestment even further through an infusion of \$10 billion in new Proposition 98 funding this year and billions more in the next few years. The minimum guarantee of funding for K-14 schools was \$56.6 billion in 2007/08 and sank to \$47.2

billion in 2011/12. From this recent low, funding is expected to grow to \$69.6 billion in 2017/18, an increase of \$22 billion (47 percent).

For K-12 schools, funding levels will increase by \$3,410 per student through 2017/18, including an increase of more than \$2,188 per student in 2014/15 over 2011/12 levels. This reinvestment provides the opportunity to correct historical inequities in school district funding with continued implementation of the Local Control Funding Formula. By committing the most new funding to districts serving low/income students, English language learners, and youth in foster care, the Budget supports real equal opportunity for all Californians.

Health Care Reform Implementation:

In the past year, California has implemented significant portions of the Affordable Care Act (ACA). On October 1, 2013, Covered California, the new insurance market place, began offering affordable health insurance, including plans subsidized with federally funded tax subsidies and products for small businesses with coverage that started January 1, 2014.

In addition, the Medi-Cal program was expanded in two ways:

- The mandatory expansion simplified eligibility, enrollment, and retention rules making it easier to get on and stay on the program.
- The optional expansion extended eligibility to adults without children and parent and caretaker relatives with incomes up to 138 percent of the federal poverty level.

Further, California increased the mental health and substance use disorder benefits available through Medi-Cal to provide needed services, including to those who are released from prisons or jails and need these types of services to better support their reentry into the community.

Significant reforms in the individual and small group insurance markets also took effect January 1, 2014. Most health plans and insurers in California are required to cover the 10 essential health benefits as required by federal law: ambulatory patient services; emergency services; hospitalization; maternity and newborn care; mental health including behavioral health treatment; prescription drugs; rehabilitative and habilitative services and devices; laboratory services; preventive and wellness services and chronic disease management; and pediatric oral and vision care.

With these reforms and coverage opportunities, an estimated 1.4 million additional people will enroll in Medi-Cal and 1.9 million people will enroll in Covered California by the end of 2015/16. Covered California has received over \$1 billion in start/up funding from the federal government with the vast majority of the funds paying for staff, information technology systems, and marketing. It must be self/sustaining by

January 1, 2015, and will assess fees on its 11 qualified health plans to fund its operating budget.

Strengthening the Safety Net:

While the state has made very difficult programmatic reductions over the past three years, California has maintained its safety net for the state’s neediest and most vulnerable residents. Compared to other states, California provides broader health care coverage to a greater percentage of the population, including in/home care and guarantees access to services for persons with developmental disabilities. California makes available higher cash assistance to families, continues that assistance to children after their parents lose eligibility, and provides extensive child care to working families with children up to age 13. Finally, the state provides generous financial aid to those seeking higher education.

- The implementation of federal health care reform will provide health care coverage to millions of Californians over the next few years. The Budget commits \$670 million in new General Fund spending to fund the expansion of Medi-Cal benefits, including mental health, substance use disorder, adult dental, and specialized nutrition services.
- The increase in the minimum wage by 25 percent to \$10 per hour by the start of 2016 will provide a needed income boost to many working Californians.

Grants provided under CalWORKs are currently below the level provided in 1987. The budget funds a 5 percent grant increase, and creates a three-year pilot program for the state’s most vulnerable low-income families with children to provide stable child care and to remove barriers to employment.

Action:

None