



Fiscal Year 2016-17 Budget

Budget Adjustments

June 16, 2016



June 16, 2016

Dear Members of the Covered California Board,

Covered California's proposed 2016-17 budget was submitted for your consideration on May 12, 2016. Subsequent to the issuance of the proposed 2016-17 budget, board and stakeholder input as well as new fiscal and programmatic factors have informed proposed changes to the budget. This 2016-17 June Budget Adjustment report identifies those items that reflect changes to the originally proposed FY 2016-17 budget and revenue totals.

The most significant adjustments are related to revenue collection and specifically the timing of payments from the carriers. Although revenue collection is consistent with membership, the timing of payments for the individual market has been unpredictable. Based on membership alone, revenue collection would be expected to be approximately \$18 million per month. However, due to significant enrollment reconciliation efforts, carriers have been making payments from 60 to 90 days, and in some cases 120 days, after being invoiced. Even with this unpredictability, by the end of March 2016, FY 2015-16 revenue collections were approximately \$10 million (about 2 weeks worth of revenue) more than expected. However, just recently carriers have agreed to pay as billed. As a result, April collections exceeded \$45 million, approximately \$27 million more than expected. This recent trend, combined with an additional \$12 million more received for FY 2014-15, puts us on a path to receive increased revenue of approximately \$48 million which will boost year end reserves for this year to approximately 11 months of operating. These changes do not impact our revenue projections for 2016-17.

In addition to the revenue adjustments, Covered California staff are also proposing budget increases of 12 positions and \$12.9 million in spending over the originally proposed FY 2016-17 budget. These changes provide additional funding for the Navigator program, marketing, and consumer assistance. As a result of these changes, the revised FY 2016-17 budget is \$320.9 million and provides 1,323 positions. These changes will be incorporated with the May proposed budget upon board action.

Although Covered California is proposing additional budget expenditures in 2016-17, the multiyear plan continues to assume a budget of \$313 million in the 2017-18 fiscal year when revenue is expected to match expenditures.

Sincerely,

Peter V. Lee
Executive Director

Table of Contents

I.	Budget Adjustments to the Proposed FY 2016-17 Budget	1
II.	Forecast and Revenue Assumptions	4
III.	Revised Multi-Year Financial Forecast	6
	ATTACHMENT: Proposed Fiscal Year 2016-17 Budget (May 12, 2016)	8

I. June Budget Adjustments to the Proposed FY 2016-17 Budget

The proposed FY 2016-17 Covered California budget submitted for consideration on May 12, 2016, was \$308.0 million to fund program operations. The June 2016 budget adjustments totaling \$12.9 million increase the final proposed FY 2016-17 budget to \$320.9 million.

Table 1 below reflects the proposed FY 2016-17 budget, the budget adjustments and the revised FY 2016-17 budget.

Table 1
The FY 2016-17 Budget After June Adjustments

	Proposed		June Revision		Revised Budget
Service Center	\$ 89,359,728	\$	509,306	\$	89,869,034
Technology	\$ 58,699,859	\$	6,500,000	\$	65,199,859
Outreach & Sales, Marketing	\$ 93,805,719	\$	4,760,000	\$	98,565,719
Plan Management & Evaluation	\$ 14,648,362	\$	845,002	\$	15,493,364
Administration	\$ 40,465,421	\$	331,596	\$	40,797,017
Enterprise Shared Costs	\$ 11,000,000	\$	-	\$	11,000,000
Total Expenses	\$ 307,979,089	\$	12,945,904	\$	320,924,993

Items affecting the overall FY 2016-17 Budget:

- **Marketing**

An increase of \$2.0 million in contract funding was added to the Marketing budget for paid media. These resources will supplement Covered California's ability to do paid marketing in Asian languages and outside major media markets.

- **Outreach & Sales**

Navigator funding increased by \$2.25 million, bringing the total budget to \$7.25 million. An additional increase of \$500,000 was also added to Outreach & Sales to build an online application portal for small businesses.

- **Policy, Evaluation & Research**

\$750,000 was added to Policy, Evaluation & Research for the Health Consumer Alliance, allowing important consumer assistance work to continue for 2016-17. An additional \$95,002 was also added to the budget for analytics.

- **Service Center**

An additional \$509,306 in contract funding was added to the Service Center to support the maintenance and operation of the Appeals Case Management System operated by the CA

Department of Social Services. The purpose of this system is to manage the appeals workload for multiple departments.

- **Technology**

An additional \$6.5 million in contract funding was added to Technology for Covered California's portion of additional CalHEERS costs.

- **Administrative Services Division**

The Administrative Services Division is requesting two (2) new positions, temporary help, and overtime funding at a cost of \$331,596 for Business Services and Human Resources. The staff and funding will support the Healthier U program, the transition of Service Center positions from temporary help to permanent, and the reconciliation of overtime payments.

Items that do not affect the overall FY 2016-17 Budget and are internal to an individual program:

- **Office of Legal Affairs — Ombudsman**

In May's proposed FY 2016-17 budget, \$2.0 million was included for the Office of the Ombudsman in the Office of Legal Affairs budget as a place holder. Staff have since developed the structure of the office which is comprised of 10 positions and \$1.5 million for personal services and \$500,000 for contracts.

Other items of significance:

- **Contra Costa**

The Proposed FY 2016-17 Budget includes \$4.0 million for Contra Costa County call center services. The contract expires on June 30, 2017, and at this time there are no plans to renew this contract.

Table 2 below summarizes the specific June adjustment items and the corresponding funding or position impact.

**Table 2
Summary of FY 2016-17 June Budget Revision Items**

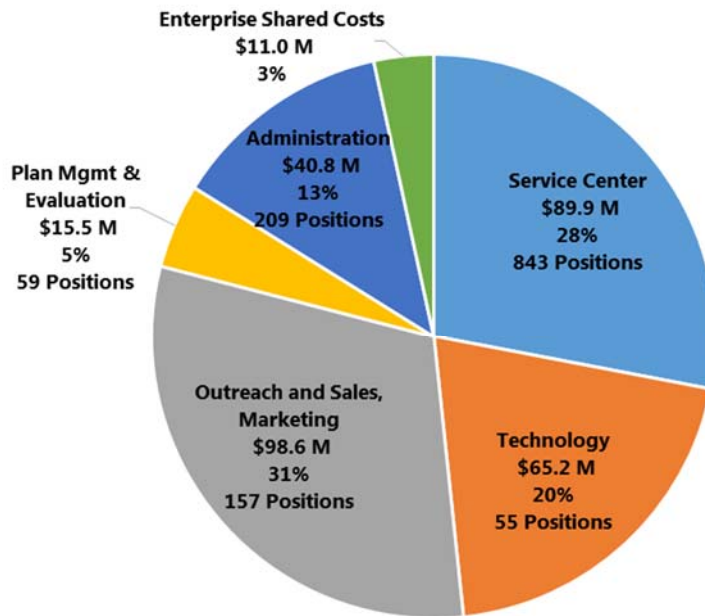
May Proposed FY 2016-17 Budget	\$ 307,979,089
June Revised FY 2016-17 Budget	\$ 320,924,993
Total Change	\$ 12,945,904

ITEMS WITH FISCAL IMPACT		
Additional Personal Services by Organizational Function (Business Unit)		
	Positions	Dollars
Administration (Human Resources, Business Services)	2	\$ 331,596
Administration (Legal - Ombudsman) ¹	10	\$ -
Total	12	\$ 331,596
Additional Contractual Funding by Organizational Function (Business Unit)		
		Dollars
Outreach & Sales, Marketing (Outreach & Sales, Navigators, Marketing)		\$ 4,760,000
Plan Management & Evaluation (Policy, Evaluation and Research)		\$ 845,002
Service Center		\$ 509,306
Technology (CalHEERS)		\$ 6,500,000
Total		\$ 12,614,308
Total Fiscal Impact	12	\$ 12,945,904

¹ The budget revision adds authority for 10 positions; the funding associated with these positions was previously included in the proposed FY 2016-17 budget

Figure 1 below reflects the revised FY 2016-17 Covered California budget totals following June budget adjustments. The revised FY 2016-17 Covered California budget provides \$320.9 million and 1,323 positions to efficiently and cost-effectively fund the organizations' mandated responsibilities and customer services.

Figure 1
Revised FY 2016-17 Budget: \$320.9 million and 1,323 positions



From a program operational perspective, the June budget revision continues to strike a balance between funding critical program delivery and providing the necessary reductions to successfully implement a multi-year plan that will allow revenue to match expenditures as early as FY 2017-18, while maintaining robust reserves to accommodate enrollment variations from forecasts.

II. Forecast and Revenue Assumptions

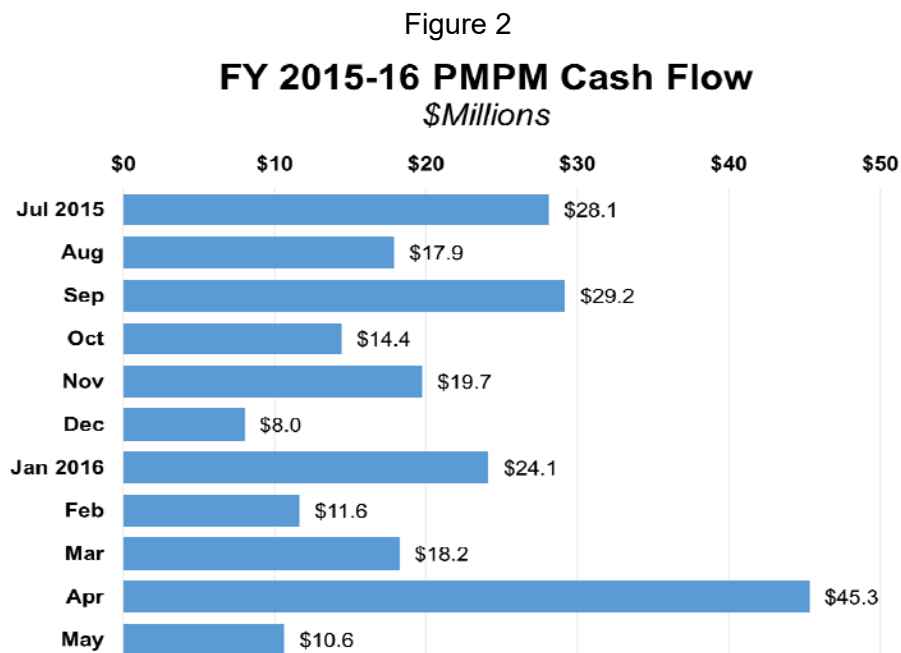
Forecast

Covered California staff prepared a comprehensive review of enrollment over the past several years and modeled three different scenarios (high, medium and low) (Proposed Fiscal Year 2016-17 Budget, page 9). These scenarios included different assumptions regarding the impact of minimum wage on enrollment. Staff have reviewed these assumptions and the most recent data indicate that individual effectuated enrollment through May was slightly above the medium forecast presented in May, but not significant enough to warrant changing the forecast at this time.

Revenue

Although revenue collection is consistent with membership, the timing of payments for the individual market has been unpredictable. **Figure 2** identifies the irregularity in the timing of payments in Fiscal Year 2015-16. Based on membership alone, revenue collection would be expected to be approximately \$18 million per month. However, due to significant enrollment reconciliation efforts, carriers have been making payments from 60 to 90 days, and in some cases 120 days, after being invoiced. This has led to the fluctuations seen below where monthly collections have ranged from a low of \$8 million to a high of \$45 million.

By the end of March 2016, FY 2015-16 revenue collections were approximately \$10 million (about 2 weeks worth of revenue) more than expected. Due to significant efforts by both the plans and Covered California to streamline reconciliation efforts, carriers recently have agreed to pay as billed. As a result, April collections exceeded \$45 million, approximately \$27 million more than expected. This additional revenue combined with adjustments of \$12 million more received for 2014-15, results in a one-time adjustment to revenue of approximately \$48 million.



In addition to the revenue adjustments noted for 2015-16, changes will be made to the timing of billing the carriers. Currently, Covered California submits invoices to the carriers 15 days before the coverage month. This has resulted in a number of reconciliation issues. To address these, beginning in 2017 Covered California will bill after the coverage month. This will result in a one-time 30 day lag in receiving payment and will reduce revenue by an estimated \$23 million in 2016-17.

IV. Revised Multi-Year Financial Outlook

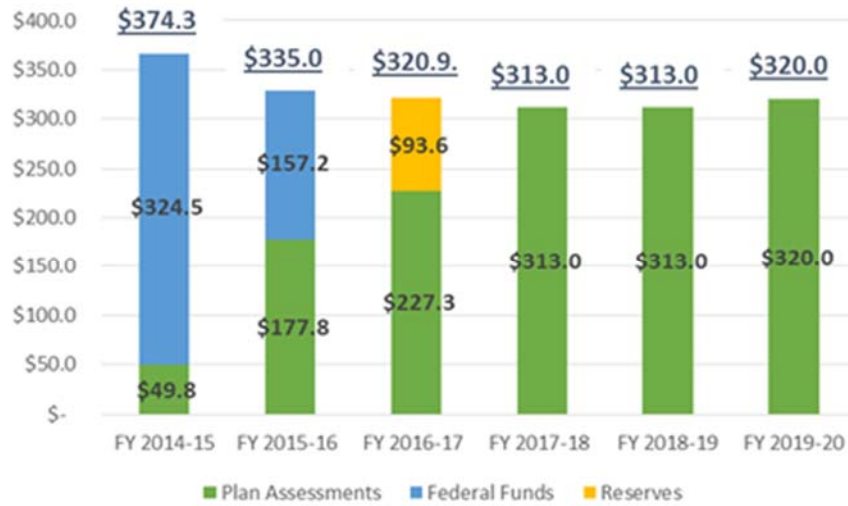
The multi-year forecast displayed in **Table 3** below has been revised to reflect the budget adjustments of \$12.9 million, bringing the 2016-17 budget to \$320.9 million. In addition, the 2015-16 expenditures are reduced by approximately \$6 million to reflect liquidation of encumbrances for 2014-15. While there are no proposed adjustments to the forecast at this time, the table below includes additional revenue as a result of plans paying as billed in 2015-16, which has reduced the lag in collections, and changing the timing of invoices in 2016-17. These changes result in increasing the funds available at year end, consequently increasing the number of months of reserves throughout the outlook. The multi-year forecast also maintains funding at the 2017-18 Budget at \$313 million where revenue is expected to match expenditures. The May multi-year forecast is displayed on page 21 of the Proposed Fiscal Year 2016-17 Budget.

Table 3
Multi-Year Forecast
(Dollars in Millions)

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Effectuated Enrollment	1,320,581	1,344,087	1,409,724	1,472,852	1,522,081
Opening Balance	\$ 320.2	\$ 277.9	\$ 184.2	\$ 184.2	\$ 205.6
Plan Assessments-Cash Basis	\$ 250.9	\$ 227.3	\$ 313.0	\$ 341.4	\$ 357.3
Expenditures 2015-16 Projected	\$ (293.1)	\$ (321.0)	\$ (313.0)	\$ (320.0)	\$ (320.0)
Year-End Operating Reserve	\$ 277.9	\$ 184.2	\$ 184.2	\$ 205.6	\$ 242.9
<i>Months Covered by Year End Reserve</i>	11	7	7	8	9

Figure 3 below illustrates the multi-year budget by funding source. Prior to the revision of the multi-year outlook to reflect the updated revenue forecasts for FY 2015-16 and FY 2016-17 and the June budget adjustments, Covered California had projected using just under \$60 million of reserves to fund operations in FY 2016-17. Following the revision to the forecast, which now includes the impact to plan assessments of the change to retrospective billing in 2017 (-\$23 million) and the increase in the FY 2016-17 budget from the June revision (\$12.9 million), California now projects using just over \$90 million of reserves to fund operations in FY 2016-17. Even though Covered California now projects that in 2016-17 it will spend \$30 million more of reserves, our reserve position at the end of the year is slightly higher than the May proposed budget.

Figure 3
Budget and Sources of Funding: FY 2014-15 through FY 2019-20
(Dollars in Millions)



ATTACHMENT

Proposed Fiscal Year 2016-17 Budget (May 12, 2016)



PROPOSED
Fiscal Year 2016-2017
Budget

May 9, 2016



May 9, 2016

Dear Members of the Covered California Board,

I am pleased to present Covered California's "Proposed Fiscal Year 2016-2017 Budget," for your review and consideration. This budget was developed in accordance with statutory requirements and in consultation with Covered California's executive and programmatic staff. In anticipation of Board member and stakeholder input and continued internal review, this is presented as a proposed budget. We anticipate finalizing the budget between now and the June Board meeting, when the budget would be considered for adoption.

This budget includes a multi-year financial summary of all revenues, expenditures and staffing used by each of Covered California's programs in the delivery of essential services to improve the health of all Californians by ensuring their access to affordable, high-quality care.

For fiscal year (FY) 2016-17, the Covered California proposed budget provides \$308 million and 1,311 positions to ensure that our organization has the right tools, processes and resources to deliver on its mission. The FY 2016-17 budget is balanced with the use of plan assessment fees and, as anticipated, using a small amount of our reserves. This will be the first year that Covered California operates with no federal establishment funds and, as always, we do not in any way rely on state general funds. With this budget, Covered California projects to end the fiscal year with more than \$160 million in reserve funding to address any unforeseen economic uncertainties. This budget meets the guidance provided by the Board and the legislative intent behind the establishment of Covered California and reflects the agency's multi-year financial strategy of providing continuous fiscal integrity, transparency and accountability.

In closing, I extend my sincere appreciation to senior executive management and their staff for their outstanding work during the budget development process.

Sincerely,

Peter V. Lee
Executive Director

Table of Contents

I.	Covered California Board and Senior Executive Management.....	1
II.	Executive Summary.....	2
III.	Guiding Principles and Strategic Pillars.....	5
IV.	FY 2015-2016 Budget Goals, Highlights and Projected Expenditures.....	7
V.	Covered California Enrollment and Revenue Forecast.....	9
VI.	Multi-Year Forecast	21
VII.	FY 2015-2016 Budget Comparison to FY 2016-2017.....	23
VIII.	Proposed FY 2016-2017 Budget	26
IX.	Covered California Program Details	32
X.	Budget and Planning Process	72

I. Covered California Board and Senior Executive Management

COVERED CALIFORNIA BOARD

**Diana S. Dooley, Chair; Paul Fearer; Genoveva Islas;
Marty Morgenstern; Art Torres**

SENIOR EXECUTIVE MANAGEMENT

Peter V. Lee
Executive Director

Yolanda R. Richardson
Chief Deputy Executive Director

LaVonne Coen
Administrative Services
Division Director/
Deputy Chief Operations
Officer

Kelly Green
External Affairs
Division Director

Kathleen Keeshen
General Counsel

Thien Lam
Program Integrity
Division Director

Jim Lombard
Financial Management
Division Director and
Chief Financial Officer

Amy Palmer
Communications
and Public Relations
Division Director

Anne Price
Plan Management
Division Director

Katie Ravel
Program Policy,
Evaluation and Research
Division Director

Karen Ruiz
Information Technology
Division Director/
Chief Technology Officer

Mavilla Safi
Service Center
Division Director

Colleen Stevens
Marketing
Division Director

Kirk Whelan
Individual and
Small Business
Outreach and Sales
Division Director

II. Executive Summary

The federal Patient Protection and Affordable Care Act brought health care coverage within reach of millions of Americans. Covered California has become a vital resource that is part of the fabric of ensuring all Californians have access to affordable health insurance, whether through their work, public programs or the individual market.

As we move forward, Covered California's enrollment remains robust, with approximately 1.4 million actively enrolled consumers, which represents a modest growth over last year. Covered California had a very strong third open-enrollment period when 439,000 new consumers picked a health plan.

This enrollment helps ensure Covered California's ability to serve Californians for years to come. Covered California is in very strong financial shape, and we anticipate ending fiscal year (FY) 2016-17 with more than \$160 million in unrestricted reserves, which is more than we projected to have on hand at this point in last year's budget.

The following budget lays out our multi-year plan and shows how Covered California has built a competitive market and strong organization that will continue to reach into every community in the state to make sure California's diverse population understands and makes use of the insurance options in this new era of health care.

Among the highlights:

FY 2016-17 marks the first year Covered California will rely solely on fees collected from health plans

- Covered California will be wholly self-sufficient for the first time in FY 2016-17. Covered California is transitioning to relying solely on the fees it collects from health plans and the extensive reserves we saved while using federal funds. We will no longer be using federal start-up funding, and unlike some other state-based exchanges, we will not be using any state funding.
- The proposed budget for FY 2016-17 is \$308 million, which reflects a reduction from FY 2015-16's \$335 million budget, and is very close to previous budget projections. As noted last year, Covered California is able to reduce expenses thanks to the substantial initial investments in information technology, outreach, education and marketing needed to launch our brand.
- This multi-year forecast ensures that Covered California will have the right tools, processes and resources to deliver on our mission to increase the number of Californians with health insurance in both the near-term and long-term.

- Covered California has developed this budget informed by updated enrollment projections and in-depth scenario assessments conducted by PwC in partnership with the University of California.

Enrollment remains strong and steady

- Covered California projects it will end FY 2015-16 with approximately 1.4 million actively enrolled consumers, which represents a modest increase over our enrollment at the end of FY 2014-15. The solid enrollment figures come in spite of smaller than predicted pool of eligible consumers based on several significant developments:
 - New research shows that the employer-based health coverage market is as strong as ever, and companies did not drop health care benefits and shift consumers to exchanges as many had predicted.¹² “Bad news” for our potential enrollment is good news in that it reflects the fact that more Californians are benefitting from employer-based coverage.
 - California’s improved economy has resulted in a dramatic decrease in the state’s unemployment rate and more consumers having access to employer-based health coverage. California’s unemployment rate stood at 8.7 percent when Covered California started its first open enrollment period in Oct. 2013.³ As of March 2016, the state’s unemployment rate had dropped to 5.4 percent.⁴
 - The impact of the improved economy and the vibrancy of employer coverage is seen in a recent analysis performed by Covered California, which examined where consumers went after moving on from the exchange. The analysis found that the overwhelming majority (44 percent) left for employer-based coverage. In addition, 16 percent became Medi-Cal eligible, 13 percent enrolled in private coverage and 11 percent moved into another form of health care coverage such as Medicare or TRICARE.⁵

¹ <http://www.nytimes.com/2016/04/05/business/employers-keep-health-insurance-despite-affordable-care-act.html>

² <http://www.forbes.com/sites/brucejapsen/2016/04/23/hey-ted-cruz-obamacares-not-causing-employers-to-drop-health-coverage/#54e9d4584641>

³ http://www.edd.ca.gov/About_EDD/pdf/urate201311.pdf

⁴ http://www.edd.ca.gov/About_EDD/pdf/urate201604.pdf

⁵ <http://news.coveredca.com/2015/10/covered-california-surpasses-two.html>

Covered California will continue to provide value while improving quality

- The health insurance premiums that will be collected during the 2016 coverage year are an estimated \$7 billion. Covered California's proposed budget, which reflects getting the assessment on premiums at 4 percent, is a small percentage of that amount and represents a good value for our consumers, given that Covered California provides the marketing and support to generate enrollment, manage a constantly changing pool of enrollees, coordinate a network of tens of thousands of partners and carry out various other duties that if not performed would lead to higher health insurance costs.
- The budget proposes additional resources in Plan Management to support Covered California's plan to increase health care quality for all consumers through system-wide efforts to lower costs. Covered California's board recently adopted significant new changes to its contracts with health insurers as part of its prescription to ensure that California's health care system delivers on the "Triple Aim" of better care, improved health and lower costs. The new contract provisions, which will cover the years 2017-2019, include a wide range of initiatives.

As you consider this budget, we encourage you to pause to consider not only the historic scale and impact of our efforts, but also how they are affecting the lives of Californians. An estimated 2.5 million consumers have received coverage from Covered California. As we go forward, Covered California will focus both on continuing to expand coverage in affordable plans and on making sure those who are covered get the care they need when they need it.

III. Guiding Principles and Strategic Pillars

The annual Covered California planning and budget process is a comprehensive, analytic process used to determine the most cost-effective and efficient level of resources that the organization needs to meet its goals and carry out its legislatively mandated mission. The organization's planning and budget process is based on established budget principles and procedures, providing the highest levels of fiscal integrity, accountability, transparency and accuracy.

The proposed FY 2016-17 budget aligns with Covered California's overall mission and vision, as well as with its guiding financial principles, detailed below.

Continuing Conformity with Financial Mandates — Covered California remains in full and strict compliance with all legal financial mandates set forth in Section 100503 of the California Government Code, including assurance that the organization's operations are not funded or reliant upon State General Fund resources. Furthermore, in accordance with the Affordable Care Act and state law, starting Jan. 1, 2015, Covered California is fully self-sufficient based on the combination of revenue raised by levying a per-member, per-month assessment on health insurance companies, reserves and federal grant funds used to establish the exchange.

Covered California's Vision and Mission — The proposed FY 2016-17 budget is guided by Covered California's vision and mission to improve the health of Californians by ensuring their access to affordable, high-quality health care. The Budget specifically seeks to fulfill Covered California's mission to increase the number of insured Californians, improve health care quality, lower costs and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and providers that give them the best value. To achieve its vision and mission, Covered California has established strategic pillars.

Strategic Pillars — The strategic pillars were designed by Covered California's executive team to guide the organization when making decisions, setting priorities, determining initiatives and preparing an annual plan. Each of the pillars was created as a pathway to achieving the mission and vision of Covered California, with consumers being the driving factor in four of the five pillars. Annual goals and department objectives are mapped to the strategic pillars, to ensure that activities and resources are aligned with the organization's mission. The five pillars are:

- **Affordable Plans** — Consumers purchase and keep Covered California products based on their perception that this is a good value for them.

- Getting Needed Care — Consumers receive the right care at the right time.
- Outreach and Education — Consumers understand what Covered California offers and have a positive attitude about Covered California.
- Positive Consumer Experience — Consumers have a positive experience from initial enrollment to keeping their coverage.
- Organizational Excellence — Covered California has the right tools, processes and resources to support its team to deliver on the exchange’s mission.

Covered California’s Guiding Financial Principles — Covered California’s budget process is guided by the following principles:

- Develop a budget that directly supports growth and retention of membership.
- Establish organizational priorities that enables Covered California to serve as an effective example of how marketplaces can improve the cost and quality of health care.
- Ensure the assessment fee reflects the lowest possible burden on consumers’ premium, has a path for decreasing over time and reflects savings to health plans compared to prior acquisition costs.
- Continue to build infrastructure that can reduce future costs, support talent, succession plans, business continuity and legal compliance.
- Continue to review programs to identify opportunities for efficiencies.
- Maintaining a reserve that is sufficient to cover financial obligations and allow for time to adjust revenue and expenditures in the event of an unanticipated fiscal event.

IV. FY 2015-16 Budget Goals, Highlights and Projected Expenditures

The FY 2015-16 Covered California budget incorporated the resources to transition from federal establishment funds to operating funds generated from plan assessments as envisioned by the Affordable Care Act and the legislative intent behind California's establishing an independent and financially self-sufficient state-based marketplace. The budget provided \$335 million and 1,399 positions to enroll Californians in coverage, provide a better consumer experience to applicants and enrollees, retain current enrollees and provide the tools to deliver on our mission. A federal grant extension provided additional time to exhaust remaining federal funding for implementation activities to support this effort related to establishing Covered California.

The budget featured the following activities:

- Substantial investments in outreach, marketing and enrollment, including a Navigator program to inform Californians about Covered California's programs and encourage retention of those who have enrolled.
- Service Center funding to provide resources comparable to FY 2014-15 and accommodate the transfer of workload associated with increased handling of consumer inquiries and of appeals.
- Funding for CalHEERS to support the FY 2015-16 program requirements of the CalHEERS 24-month road map, including the phase-in of a new cost-allocation plan to more appropriately reflect costs across Medi-Cal and Covered California.

Covered California completed its second renewal period and third open enrollment within the range of forecasts used for the FY 2015-16 budget. Covered California is transitioning from the initial phase of rapid expansion to a period of more moderate enrollment gains. This trend towards modest enrollment growth is reflected in the new forecasts developed to support the FY 2016-17 revenue and expenditure proposals. The current forecast projects approximately \$212.3 million in revenue in FY 2015-16, a decrease of \$22 million from our previous multi-year forecast.

The projected expenditures for FY 2015-16, as of March 31, 2016, are \$298.9 million, \$36.1 million lower than the June adopted budget of \$335 million. This is primarily the result of lower-than-budgeted expenditures in all functional areas, in particular in the Service Center and Outreach, Sales and Marketing; Table 1 shows the projected FY 2015-16 expenditures.

TABLE 1
FY 2015-16 Projected Expenditures versus FY 2015-16 Budget
(as of March 31, 2016)

	Budget	Projected	Difference
Service Center	\$100,103,078	\$88,531,725	\$(11,571,353)
Technology	\$48,770,035	\$48,137,593	\$(632,442)
Outreach & Sales, Marketing	\$121,512,473	\$107,488,209	\$(14,024,264)
Plan Management & Evaluation	\$17,300,582	\$14,754,443	\$(2,546,139)
Administration	\$33,858,888	\$31,614,675	\$(2,244,213)
Enterprise Shared Costs	<u>\$13,493,138</u>	<u>\$8,383,681</u>	<u>\$(5,109,457)</u>
Total Expenses	\$335,038,194	\$298,910,326	\$(36,127,868)

Summary of Major Areas:

Service Center — Projected expenditures for FY 2015-16 are anticipated to be \$11.6 million lower than budgeted due to \$4.2 million in salary savings, \$5.3 million in general expenses and \$2 million in contract savings.

Outreach and Sales, Marketing — Projected expenditures for these programs in FY 2015-16 are anticipated to be \$14 million lower than budgeted, largely due to a savings in the paid media contract, and less funding for postage and printing.

Plan Management and Evaluation — FY 2015-16 expenditures are projected to be \$2.5 million lower than budgeted, primarily due to contract savings associated with the analytics program, and salary savings.

Administration — Projected expenditures are \$2.2 million lower than the FY 2015-16 budget primarily due to salary savings.

Enterprise Shared Costs — Projected expenditures of \$8.4 million consist of approximately \$2.5 million in Pro-Rata and SWCAP, with the remaining \$5.8 million used towards strategic initiatives allocated to programs throughout the year. Expenditures are lower than budgeted largely due to lower than anticipated expenditures on Pro-Rata and SWCAP.

V. Covered California Enrollment and Revenue Forecast

The Covered California enrollment forecast used for this budget extends through 2020 and is informed by two years of special enrollment activity, and three rounds of open enrollment, including two annual renewals. Continued enrollment growth is expected based on the projected growth of the number of Californians eligible for financial assistance through Covered California driven by underlying demographic trends and additionally, by the impact of the recently enacted increase to California's minimum wage that will increase in stages to \$15 per hour in 2020. Thus, the forecast projects modest enrollment and revenue growth from 2016 through 2018 followed by more robust growth through 2020.

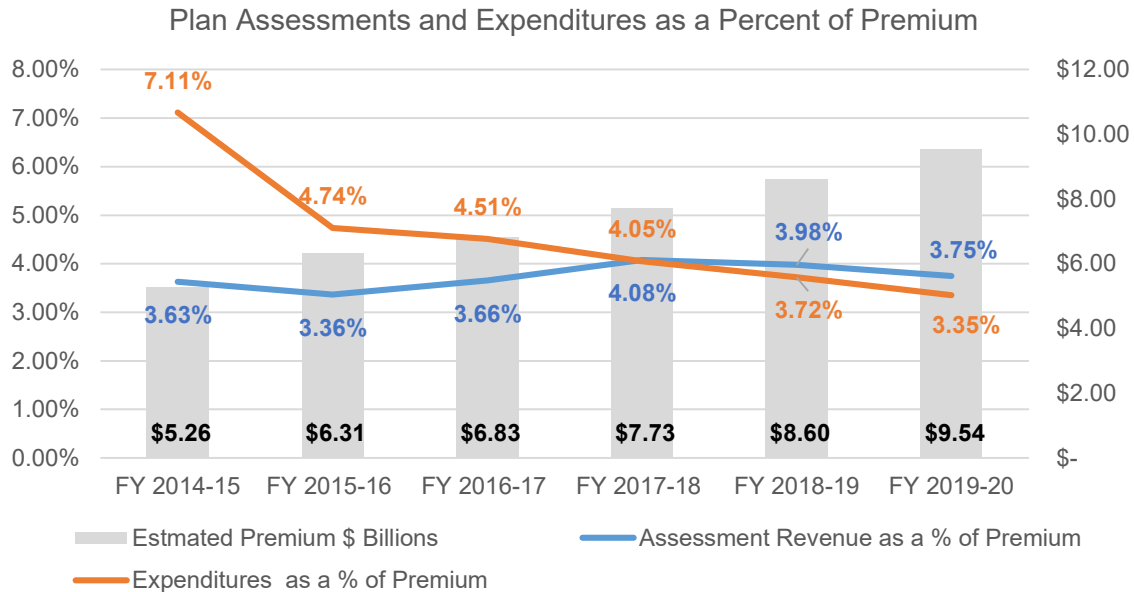
Various indicators point to the likelihood that Covered California's initial phase of rapid expansion will give way to a more stable phase, which leads to a more modest outlook than the previous forecast. Open enrollment for the 2016 benefit year resulted in enrollment within the range of previous forecasts. Based on the latest enrollment results reported by all ACA marketplaces, the Kaiser Family Foundation⁶ estimates that among the best-performing states, which includes California, 90 percent of people eligible for subsidies have selected plans which leaves little room for potential growth going forward.

Covered California is an important participant in a large and dynamic health insurance marketplace whose customer base is constantly changing in size, economic situation, as well as in health insurance needs. In addition to the 1.4 million Californians who currently have health policies purchased through Covered California, approximately 18 million receive health coverage through employers, 700,000 purchase individual coverage outside of Covered California, and more than 12 million are covered by Medi-Cal. Approximately 3 million remain uninsured, of which less than 1.4 million are eligible for subsidies. Of the latter, from 500,000 to 800,000 may be covered by COBRA, covered indirectly by an employer, or may be in transition between employer-based coverage, Covered California and Medi-Cal.

According to the analysis performed by PwC, the most significant impact to the exchange eligible population will be the recently enacted minimum wage increase. Boosting income for those near the subsidy eligibility range will lead to shifts from Medi-Cal to Covered California. Among the various external drivers considered by the PwC analysis, the impact of a rising minimum wage is expected to be the most significant driver of additional enrollment through 2020.

⁶ <http://kff.org/health-reform/issue-brief/assessing-aca-marketplace-enrollment/>

FIGURE 1



This forecast also incorporates a change in the assessment from a flat per-member, per-month (PMPM) rate to a percentage of gross premiums paid beginning in 2017. To put this change in context, Figure 1 presents the expenditures as a percent of premium from 2014-15 through 2019-20. In 2014-15 Covered California spent more than 7 percent of premium for establishment and operational costs. This percent will drop to 4.7, 4.5 and 4 in 2015-16, 2016-17 and 2017-18 respectively. At the same time, the \$13.95 PMPM assessment would only recover 3.6 percent, 3.4 percent, and 3.7 percent for fiscal year 2014-15, 2015-16 and 2016-17 respectively, well below the comparative rates for expenditures. Covered California proposes setting the assessment fee at 4 percent of premium beginning in 2016-17. While this rate is effectively higher than the current \$13.95 flat rate charged, it puts Covered California in a position where revenues will exceed expenditures by FY 2017-18 and sets Covered California on the path to reducing the assessment in coming years.

A 4 percent of premium assessment fee will be assessed on the 1.4 million currently enrolled in Covered California plans. In addition to Covered California enrollees, there is also approximately another 700,000 people in the individual market who benefit from the rates negotiated by Covered California, but are not directly enrolled through Covered California. The total number of members in the individual market is approximately 2.1 million. The Affordable Care Act requires the rates for these products (both on and off exchange) to be the same. Since the health plans offered by Covered California represent approximately 66 percent of the total enrollment in individual coverage, Covered California's assessment essentially requires the health plans to spread the assessment fee across the entire individual market. To the extent that carriers have members that do not purchase through Covered California, the fact they pay the same rate, results in the actual assessment being spread across the entire

individual market for those health plans offered by Covered California. Covered California estimates that the actual average effective assessment rate for 2017 will be approximately 2.6 percent across the entire market.

In addition to the enrollment and eligibility insights, PwC also concluded that Covered California incurs significant costs related to acquisition activities similar to other organizations with high churn rates. Covered California acquisition expenditures help reduce the overall acquisition cost incurred by participating insurance carriers. Historically insurance carriers have incurred substantial acquisition costs which are now being reduced due to the number of enrollees using self-service enrollment tools and by reduced commission costs.

Forecasting Potential Enrollment

The 2015 enrollment forecast, used to develop the FY 2015-16 budget, benefited from the experience and lessons learned in 2014. In contrast, the 2016 forecast reflects the experience of two years of enrollment history as well as insights from and comprehensive market analysis completed by PwC in concert with demographic modelling experts at the University of California. The forecast combines the two perspectives into a balanced outlook.

The 2015 benefit year and 2016 open enrollment experience indicate that Covered California will likely see more stable enrollment trends going forward. Open enrollment activity for the 2016 benefit year was more modest than for 2015 primarily due to a more compressed open enrollment schedule and due to a smaller uninsured population likely to enroll in Covered California. Special enrollment activities provided additional opportunities for individuals to enroll in 2015 and was stronger than 2014. This was due to a longer special enrollment period and the temporary additional qualifying event given to individuals who were unaware of the tax implications of remaining uninsured.

These developments are reflected in the 2016 forecast by shorter open enrollment periods, as currently anticipated, lower special enrollment gains and slightly higher disenrollment. Thus the 2016 enrollment forecast is anchored in the 2014 and 2015 experiences with some modest projections for growth largely due to income impacts as a result of minimum wage increases. It is critical to note that while “net” enrollment reflects only moderate growth, this is based on Covered California continuing to do extensive marketing, sales and retention activities required to newly enroll from 700,000 to 900,000 each year as many enrollees leave Covered California’s coverage to get employer-sponsored coverage, Medi-Cal, Medicare or other coverage.

At the end of the third open enrollment, Covered California reached enrollment of 1.4 million individuals compared to 1.5 million projected in the 2015 Medium forecast and 1.4 million in the 2015 Low forecast. This performance relative to forecast has informed the modelling going forward. By starting 2016 with somewhat fewer enrollees than projected in the Medium forecast, FY 2015-16 revenues will now likely be approximately \$22 million less than originally budgeted.

Table 2 summarizes the revenue projections derived from the Individual Market and Covered California for Small Business forecasts described below.

TABLE 2

Covered California Revenue Outlook Summary				
Medium Forecast Alternatives				
Market	PMPM Revenue (\$millions)			
Fiscal Year	2016-17	2017-18	2018-19	2019-20
Individual Market - Medical	\$244.0	\$300.9	\$319.0	\$325.5
Individual Market - Dental	\$.9	\$1.1	\$1.1	\$1.1
CCSB	\$9.8	\$15.6	\$22.8	\$31.3
Total Revenue	\$254.7	\$317.5	\$342.9	\$358.0
<i>Individual Market Medical Revenue Cash Basis Adjustment</i>				
<i>Individual Market - Medical</i>	<i>\$244.0</i>	<i>\$300.9</i>	<i>\$319.0</i>	<i>\$325.5</i>
<i>Adjustment for Payment Receipt Lag</i>	<i>-\$5.2</i>	<i>-\$2.4</i>	<i>-\$0.7</i>	<i>-\$0.3</i>
<i>Cash Basis</i>	<i>\$238.8</i>	<i>\$298.5</i>	<i>\$318.3</i>	<i>\$325.2</i>
<i>Total Revenue (Cash basis)</i>	<i>\$249.6</i>	<i>\$315.1</i>	<i>\$342.1</i>	<i>\$357.7</i>

Individual Market Forecast

This projection begins after the third open-enrollment period and takes into account the following:

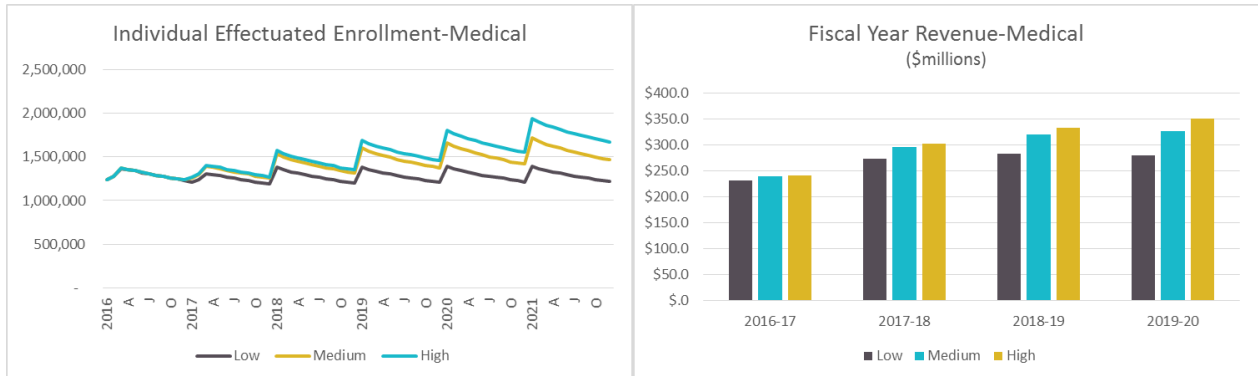
- The pace that new enrollees acquired coverage through Covered California during 2015 special enrollment.
- The rate at which enrolled individuals leave Covered California through termination or by failing to renew coverage.
- The likelihood that an individual who selects a plan will pay their premium.
- The seasonal distribution of enrollment activity throughout the benefit year.
- The size of the California population eligible for subsidies.
- The impact of rising minimum wage on the subsidy eligible population.
- Potential medical cost trends reflected in premiums.

For the next several years, open enrollment activities will continue to outpace special enrollment activities and be the primary driver of enrollment growth. Enrollment growth is projected through 2020.

A range of enrollment estimates were developed. High and Medium estimates reflect different assumptions about the impact of a rising minimum wage on the subsidy eligible population — moderate impact in the Medium projection and a robust impact in the High alternative. The Low enrollment alternative reflects no additional growth due to the increase in the minimum wage.

FIGURE 2

Individual Market Enrollment and Revenue Scenarios



Key Assumptions

The High and Medium forecast alternatives assume that, in addition to enrollment gains attributable to the small growth of the population eligible for subsidies, Covered California will see the enrollment impact from increased subsidy eligibility due to the enacted increases to California’s minimum wage. The enrollment impacts assumed were derived from estimates produced by PwC as part of its recently completed market analysis. The Medium forecast assumes a moderate impact on enrollment — reflecting Covered California enrolling approximately one-third of the potential newly eligible projected by PwC. The High forecast assumes a boost to enrollment essentially equal to the full impact estimated by PwC.

TABLE 3

Individual Market					
Additional Enrollment Impact of Rising Minimum Wage					
Alternative	Average Annual Effectuated Enrollment				
	2016	2017	2018	2019	2020
High	-	17,937	52,972	125,325	204,740
Medium	-	5,921	17,481	41,352	67,558
<i>Baseline Enrollment</i>	1,293,930	1,310,231	1,392,075	1,431,323	1,454,256

The Low forecast assumes that due to affordability challenges and the constant transition of enrollees between the Covered California and Medi-Cal populations as a result of eligibility changes (primarily due to income), a rising minimum wage is assumed to have a neutral impact on enrollment. Due to the formulas used to calculate subsidies, as wages increase the value of the subsidies decrease which to some extent diminishes its affordability benefits. The impacts of the transition between subsidy eligibility and Medi-Cal eligibility may be more significant as persons who were clearly eligible for either Medi-Cal or subsidies now border both programs due to their income. These households or individuals are assumed to not enroll with Covered California.

Aside from the enrollment aspects of the forecasts, the financial aspect incorporates a limited number of important assumptions that determine the financial projections as a result of the forecast enrollment. Each of the forecast alternatives are based on the shift to a percent of premium revenue assessment in 2017. The revenue projected in 2017 through 2020 rely on a set of assumptions related to gross health insurance premium growth and the associated revenue assessment rate.

Monthly enrollment rate during special enrollment

The 2015 special enrollment period outpaced the 2015 forecast primarily because of the inclusion of a temporary qualifying life event in 2015 for individuals who were unaware of the tax implications of remaining uninsured. This level of activity was not anticipated in the 2015 enrollment forecast and significantly impacted the overall level of special enrollment activity. During the entire 2015 special enrollment period (April – December), plan selections averaged 40,200 per month including strong enrollments in April through June which reflects the use of the special qualifying event. This strong level of activity was discounted from the 2016 assumption by using the monthly plan selection average from July through November of 2015, which also omits the weak enrollment months immediately preceding open enrollment. This discounted average of approximately 32,700 is the base monthly enrollment assumption for 2016 and beyond. This base assumption is then escalated by annual growth of the subsidy eligible population and by the estimated impact of the minimum wage increase as discussed above.

Effectuation Rate

Among the lessons learned from previous years is that 80 percent of new enrollees during open enrollment will pay at least their first month's premium. Likewise, during special enrollment on average 69 percent of enrollees will make their first payment. These rates are comparable to those used in previous forecasts.

Disenrollment (Churn) and Tenure

Covered California now has better data on the extent to which consumers come and go from its coverage – often called “churn.” Based on the PwC analysis, the average tenure of a Covered California enrollee is about 25 months. This means that each year about 47 percent of those enrolled leave either during the year or at annual renewal. Covered California’s surveys of these individuals has found that the biggest reason for disenrolling is to switch to employer-based coverage. Other reasons for disenrolling are transition to Medicare, Medi-Cal or other coverage. Thus, 85 percent of those leaving Covered California gain some other form of health insurance and about 15 percent leave to be uninsured.

Covered California’s churn reflects the movement of its enrollees through different forms of health coverage. Based on the information above, Covered California has served over 2.5 million Californians throughout its existence as a state based exchange. This reflects the vital role that Covered California plays as a source of transitional insurance coverage.

Subsidized and Unsubsidized Enrollments

The model uses the ratio of subsidy-eligible enrollees to enrollees not eligible for subsidies based on 2015 enrollment, of which 90 percent were qualified for financial assistance on average. The previous forecast assumed a subsidized rate of 85 percent.

Revenue and Change in Health Insurance Premiums

The revenue forecast for each of the three alternatives reflect a shift to a percent of premium assessment in 2017, with a proposed rate of 4 percent. All models reflect the same trend assumptions for gross health insurance premiums, which are projected to increase by 8 percent in 2017 and 5 percent each year through 2020. The projected increase in 2017 is driven by the assumed impact of the sunset of the Transitional Reinsurance Program and the Risk Corridors Program — temporary federally sponsored high claimant risk mitigation programs. The termination of these programs will put a one-time upward pressure on health insurance gross premiums. After 2017, premiums are forecast to increase at 5 percent each year, driven by annual cost increases (weighted average basis) in Hospital Services (1 percent), Professional Medi-Cal Services (2 percent), and Pharmaceuticals (2 percent).

According to the Medium enrollment outlook, annual individual plan assessments are projected to decrease as a percentage of premiums, as total premiums increase, in upcoming years. On a budgetary basis, Covered California projects \$244 million in individual market revenues will be generated in FY 2016-17; \$300.9 million in 2017-18; \$319 million in 2018-19; and \$325.5 million in 2019-20.

Sensitivity Analysis

Covered California has modeled updated Low, Medium and High enrollment forecasts. The High enrollment alternative estimates from \$1 million to \$25 million (0.4 percent to 8 percent) more annual revenue over the Medium alternative. The Low alternative projects from \$8 million to \$45 million (3 percent to 14 percent) less revenue.

TABLE 4

Individual Market									
Comparison of Low, Medium & High Enrollment and Revenue Projections									
Alternative	Average Annual Effectuated Enrollment				Revenue (\$millions)				
	Fiscal Year	2016-17	2017-18	2018-19	2019-20	2016-17	2017-18	2018-19	2019-20
Premium Assessment Rate						4.0%	4.0%	3.75%	3.50%
High		1,309,813	1,404,109	1,502,210	1,610,597	\$245.2	\$306.2	\$332.2	\$349.8
Medium		1,304,432	1,379,652	1,442,419	1,498,901	\$244.0	\$300.9	\$319.0	\$325.5
Low		1,267,213	1,273,235	1,281,307	1,288,358	\$236.1	\$277.4	\$283.4	\$279.8

Covered California currently projects its assessment to decrease to 3.5 percent by 2020, which equates to 2.3 percent across the entire individual market for the plans contracted by Covered California.

Forecast Uncertainties

As always there are potential policy, programmatic, economic and regulatory developments that could result in more or less enrollment or revenue than projected by these forecasts. However, as noted by PwC in their market analysis, the economic and regulatory uncertainties most likely to occur have positive impacts on Covered California enrollment. Only major policy changes that would decrease the size of the subsidy and who is eligible for it would have a negative impact on enrollment. The effect of such changes would be substantial.

Projected enrollment growth is principally expected from general economic and population growth and by the anticipated positive economic impacts of the increase in California's minimum wage. While the Medium forecast assumes only a share of the enrollment growth from this development materializes, it is possible that even that will not be realized. Assumptions in earlier forecasts about the transition of Medi-Cal recipients to Covered California didn't appear to happen as anticipated. The take up by Covered California of those losing Medi-Cal coverage could be weaker than anticipated as well.

The shift of Covered California fees to a percent-of-premium basis in 2017 make anticipated premiums an important factor for revenue estimates. There is a limited historical track record of health insurance premiums since the implementation of the Affordable Care Act and the launch of Covered California. This is further complicated by uncertain reaction to the impending termination of the Transitional Reinsurance Program and the Risk Corridors Program noted above.

Supplemental Adult Dental Forecast

In 2016 Covered California added on a supplemental benefit, dental coverage for adults. Pediatric dental coverage is defined by law as an “essential health benefit” and has always been part of our offerings. As a supplemental benefit, the purchase by consumers is totally voluntary and there are no federal subsidies to reduce the cost of those premiums. The Individual Market - Dental forecast extends out to 2020. For the first three months of 2016 about 12 percent of those who enrolled or renewed signed up for dental coverage. The Dental forecast assumes the same ratio of enrollment through 2020. Dental revenue in 2016 is generated via a \$.83 PMPM rate. In 2017, the revenue assessment shifts to a percent of premium similar to that of the individual market medical program. Premium growth for dental assumes the same rate of growth as the medical program (see Revenue and Premium Growth section above). The revenue projected in the Dental forecast reflects premium growth and an assessment rate, 4 percent of gross premiums, equal to the individual medical forecast. The Medium Dental forecast projects \$900,000 in dental assessment revenues will be generated in FY 2016-17; \$1.1 million in 2017-18, \$1.1 million in 2018-19; and \$1.1 million in 2019-20.

Covered California for Small Business Forecast

The enrollment outlook of Covered California for Small Business (CCSB) (previously identified as the Small Business Health Options Program, or SHOP), builds on the operational improvements and the continuing migration of the small business market to products that meet requirements of the Affordable Care Act. Operational improvements include enrollment system functionality now performing at market standard and improved agent support. Both of which have received positive market response. Additionally, as of January, 2016, the definition of the small business market expanded from one to 50 eligible employees to a new ceiling of 100. This change requires groups in the 51-100 segment to ensure coverage offered effective January 2016 or after is ACA compliant. As the beginning of 2016 approached, the 51-100 market saw early renewal activity in which groups who were due to renew coverage in January 2016 choose instead to renew in late 2015 to maintain their current plans. This was similar to the migration pattern seen in 2013 as the January, 2014 compliance for the under 50 segment approached.

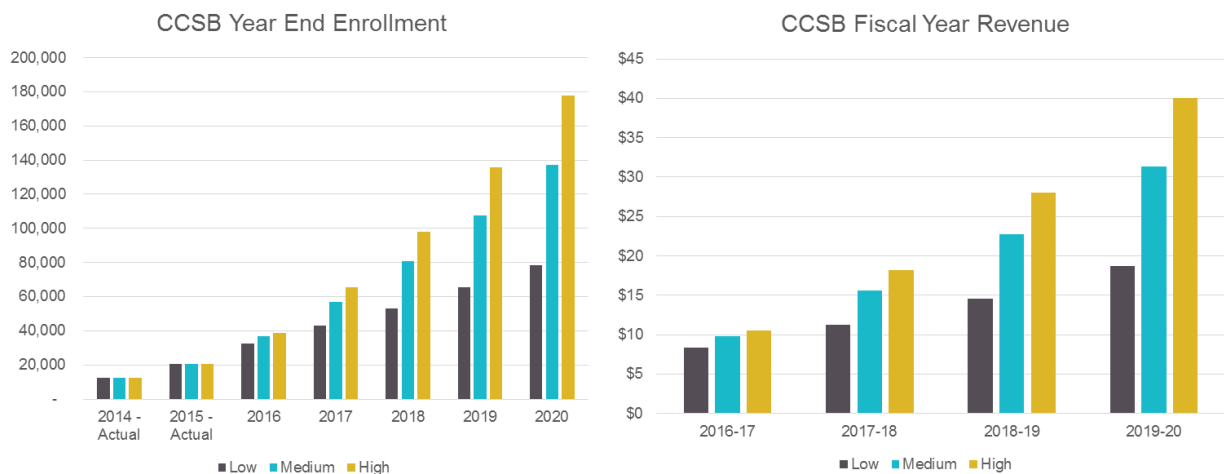
While start up challenges in 2014 hampered initial sales and retention, service improvements are beginning to be reflected in expanded enrollment in CCSB. Broker engagement, which is the channel responsible for the vast majority of small business enrollment across the market, is growing.

Overall, CCSB enrollment is expected to rise through 2020 due to the positive impact of the following factors:

- The market is recognizing the value of exchange products. This includes parity in market pricing, employers offering employees an array of choice, employer ability to budget premium contributions, and single billing administration. This is leading to exchanges being more attractive to the market than seen in years past.
- Expected improvements to the CCSB offering portfolio both in terms of carriers and plans offered.
- CCSB offers tax credits for up to 50 percent of eligible employer’s contribution to health coverage for two consecutive taxable years.
- The continuing migration of employers in the 51-100 market to ACA compliant plans.
- Covered California having addressed a majority of the initial launch challenges and developing additional operational capabilities to further improve both the employer and agent experience.

In parallel with the individual enrollment projections, Low, Medium and High enrollment estimates have been developed based on different assumptions for new sales growth, renewal and non-renewal rates. The updated forecast builds off of the actual experience of the past two years. This includes market shift caused by early renewals to a significant amount of December renewals as well as January renewals, and the new to coverage groups coming to exchanges year around.

**FIGURE 3
CCSB Enrollment and Revenue Scenarios**



Key Assumptions

New Member sales growth

The Medium new member enrollment estimates assumes an average of 15 percent year-over-year new sales from 2016 through 2020. With effective group migration, this will be above average in 2016-17 and lessen a bit each year moving forward. With this model, 27,000 new policies are forecasted in FY 2016-17.

New Member sales increase factor

Key factors affecting new sales growth estimates include a continuation of currently seen sales and operational improvements which drive moderate adoption from brokers and employers, product offering improvements in PPO beginning in 2017-2018, and additional portfolio offerings further out.

Renewal/non-renewal rate

With improved operations, CCSB further expects overall enrollment to be positively impacted with improved group persistency. After significant non-renewal rate in the first year, CCSB has already seen renewal rates increase to 88 percent with current trend showing an approach to a percentage in the 90s across this forecast.

Premium inflation rate

The medical premium inflation rate is similar to the rates projected for the Individual exchange — 8 percent for 2017 over 2016 and 5 percent annual increases thereafter through 2020.

CCSB Sensitivity Analysis

The High enrollment alternative estimates \$730,000 more annual revenue over the Medium alternative for FY 2016-17. Alternately, the Low alternative estimates \$1.5 million less revenue.

Table 5
Covered California For Small Business

Alternative	Total New Sales				Average Annual Enrollment				Revenue (\$millions)			
	2016-17	2017-18	2018-19	2019-20	2016-17	2017-18	2018-19	2019-20	2016-17	2017-18	2018-19	2019-20
High	30,590	37,954	43,648	49,090	43,127	71,031	104,286	142,749	\$10.5	\$18.2	\$28.0	\$40.0
Medium	27,072	31,775	35,724	39,296	40,332	61,082	85,349	112,455	\$9.8	\$15.6	\$22.7	\$31.3
Low	20,034	20,547	21,575	22,087	34,741	45,031	55,476	67,832	\$8.3	\$11.3	\$14.6	\$18.7

CCSB Revenue as percent of medical premium rate

Starting in 2017, the Covered California assessment is calculated as a percent of gross medical premium. The rate proposed for 2017 is 5.2 percent of premiums which is equivalent to the \$18.60 per member per month fee currently assessed. This assessment does not include the additional amount which is collected and paid to agents for their commission-based enrollment activities.

VI. Multi-Year Forecast

Since its inception, Covered California has recognized that the budget planning process involves consideration of several key variables over a multi-year period, including revenue, expenditures and reserves. As such, the FY 2016-17 budget is one component of a multi-year plan that will ensure that Covered California has a strong fiscal foundation for the foreseeable future. Covered California anticipates that it will spend its remaining federal establishment funds by the end of FY 2015-16 and that it will begin FY 2016-17, its first fiscal year relying solely on plan assessment revenues, with an operating reserve of approximately \$222 million. Consistent with its guiding financial principles, the reserve amount is based on maintaining a level that is sufficient to assure an adequate balance to address uncertainties and to allow for timing lags needed to adjust revenue and expenditures. Adjustments in the plan assessment for example, takes nine to 18 months to have an impact on plan assessment revenue. For these reasons, it is necessary to develop the budget within the framework of a multi-year plan. The current multi-year forecast is displayed in Table 6 below. Revenues which include both the individual and Covered California for Small Business markets, are calculated on a cash basis that more accurately reflect the actual timing of the collection of revenue.

TABLE 6
Multi-Year Forecast
Dollars in millions

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Effectuated Enrollment (<i>Individual Market at fiscal year end</i>)	1,320,581	1,344,087	1,409,724	1,472,852	1,522,081
Opening Balance	\$ 308.4	\$ 221.8	\$ 163.3	\$ 165.4	\$ 187.6
Plan Assessments - Cash Basis	\$ 212.3	\$ 249.6	\$ 315.1	\$ 342.2	\$ 357.8
Expenditures (<i>2015-16 Projected</i>)	\$ 298.9	\$ 308.0	\$ 313.0	\$ 320.0	\$ 320.0
Year-End Operating Reserve	\$ 221.8	\$ 163.3	\$ 165.4	\$ 187.6	\$ 225.4
<i>Minimum number of months expenditures covered by reserve</i>	9	6	5	6	7
<i>Months of expenditures covered by reserve at fiscal year end</i>	9	6	6	7	8

The budget forecast reflects a \$308 million budget in FY 2016-17, which is on target according to last year's forecast, and assumes budgets of between \$313 million and \$320 million for FY 2017-18 through FY 2019-20. Consistent with last year, the current multi-year plan is designed to balance revenues and expenditures by FY 2017-18. The plan will provide a six month operating reserve throughout FY 2016-17 with a fiscal year-end position of more than \$160 million, which is higher than previously projected. It reflects modest increases in operating expenses over the next few fiscal years to allow programs to maintain necessary service levels and to maintain and expand membership.

The forecast utilizes the Medium enrollment scenario and the plan assessment is budgeted at a level of 4 percent of premium for 2017 and 2018, and budgeted at 3.75 percent in 2019 and 3.5 percent in 2020. Covered California for Small Business plan assessments are budgeted at a level of 5.2 percent of premium for the duration of the forecast. The budget does include revenue from family dental coverage which is assessed at the same rates as the medical coverage offered on the individual and CCSB markets. To the extent enrollment varies from the Medium forecast, Covered California would be able to adjust its revenue by increasing or decreasing the plan assessment, or by adjusting its budgeted expenditures.

Based upon the multi-year forecast, Covered California anticipates maintaining a minimum reserve level of over five months at the low point during 2017-18 with year-end reserves not dropping below six months through the entire forecast.

It is important to note that each year a new multi-year forecast will be completed based on the most current information, so the estimates presented here could change.

FIGURE 4
Budget and Sources of Funding: FY 2014-15 through 2019-20
(Dollars in Millions)

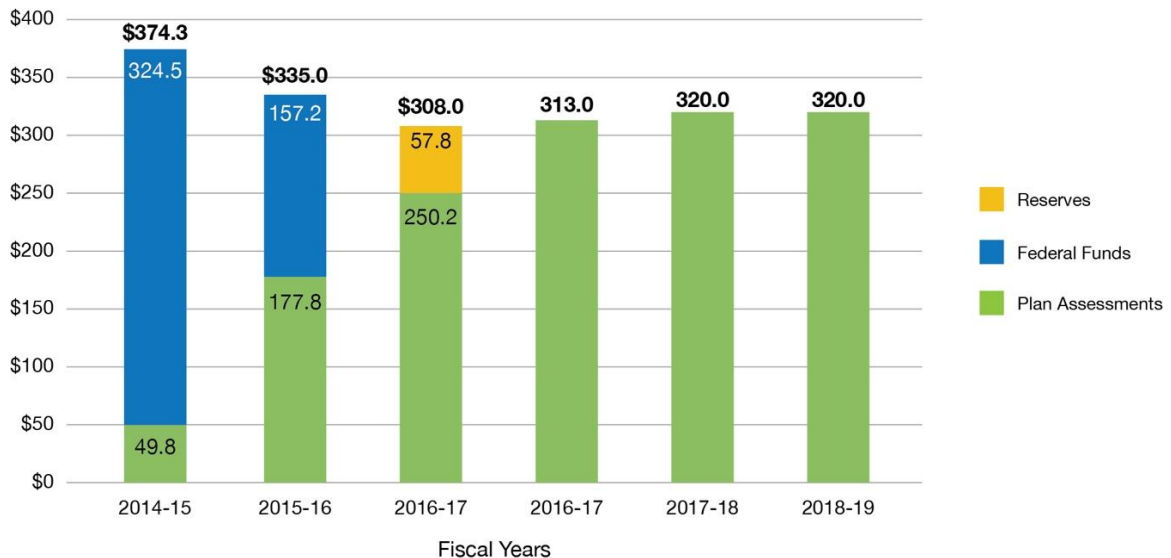


Figure 4 illustrates the Covered California multi-year budget by funding source. Covered California has two main funds, Federal Funds and the California Health Trust Fund. California can also utilize the reserve to meet program expenditures. Federal Funds decrease from over 80 percent of the budget in 2014-15 to zero by 2016-17. The California Health Trust Fund is moving from below 20 percent to 100 percent by 2017-18 and thereafter. In 2016-17, Covered California projects it will use just under \$60 million of reserves (about 18 percent) to fund a portion of program operations, leaving over \$160 million in reserves at year-end.

VII. FY 2015-2016 Budget Comparison to FY 2016-17

As illustrated in Table 7, the FY 2016-17 Covered California budget provides \$308 million to fund program operations. This funding is approximately eight percent less than the FY 2015-16 board adopted budget of \$335 million. The most significant changes are a result of reductions to the Service Center, Outreach & Sales and Marketing budgets.

TABLE 7
FY 2015-16 compared to FY 2016-17

	2015-16 Budget	2016-17 Proposed	Difference
Service Center	\$100,103,078	\$89,359,728	\$(10,743,350)
Technology	\$48,770,035	\$58,699,859	\$9,929,824
Outreach & Sales, Marketing	\$121,512,473	\$93,805,719	\$(27,706,754)
Plan Management & Evaluation	\$17,300,582	\$14,648,362	\$(2,652,220)
Administration	\$33,858,888	\$40,465,421	\$6,606,533
Enterprise Shared Costs	\$13,493,138	\$11,000,000	\$(2,493,138)
Total Expenses	\$335,038,194	\$307,979,089	\$(27,059,105)

A brief overview of the funding changes for each organizational unit, between the FY 2015-16 and the FY 2016-17 budgets follows:

Service Center – The FY 2016-17 proposed budget is consistent with projected expenditures for FY 2015-16 of \$88.5 million and will allow the Service Center to provide service levels comparable to FY 2015-16. The FY 2016-17 proposal reflects a decrease of \$10.7 million from the FY 2015-16 budget. The proposed FY 2016-17 budget includes \$53.9 million for personal services, \$28.9 million for contracts, and \$6.5 million for other expenses. While personal services and other expenses have remained level with prior year funding, expenditures on contracts have been reduced.

Technology – The FY 2016-17 budget is approximately \$9.9 million higher than the FY 2015-16 budget primarily due to Covered California’s investment in IT infrastructure to drive efficiencies throughout the organization and provide better customer service. The CalHEERS proposed budget is consistent with the FY 2015-16 budget of \$36 million. The cost allocation plan for 2016-17 is still pending approval and Covered California will

continue to work with state and federal partners to monitor and make adjustments to the project's cost allocation plan as needed.

Outreach and Sales, Marketing – The FY 2016-17 budget proposes \$93.8 million for outreach and marketing efforts to inform Californians about Covered California's products, and retain those already enrolled. The budget supports a \$5 million Navigator program and \$36 million for paid media.

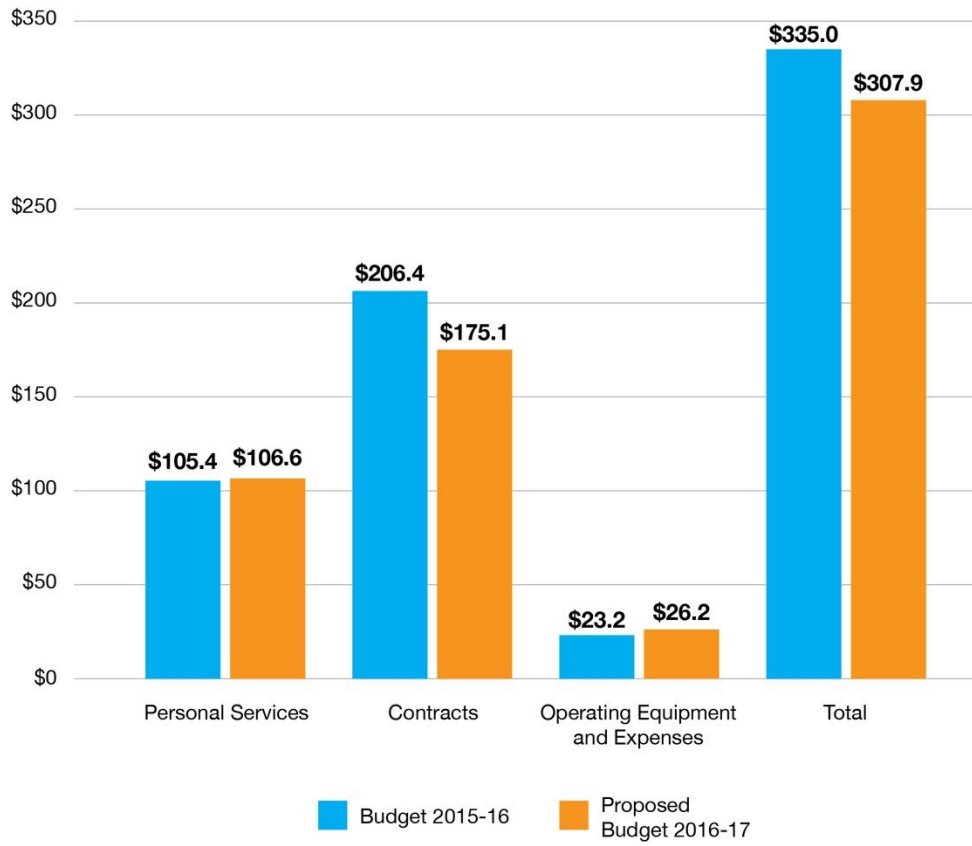
Plan Management and Evaluation – The FY 2016-17 budget reflects additional resources to implement quality initiatives. There is also a decrease of approximately \$2.7 million primarily due to a reduced need to depend on outside appeals support and other consulting resources.

Administration – The FY 2016-17 budget is approximately \$6.6 million higher than the FY 2015-16 budget primarily due to anticipated \$2.5 million increases to employee compensation, staff benefits and 7 new positions for various functions including training; \$2 million to establish an Office of the Ombudsman to increase the transparency and accountability of Covered California by serving as an independent, impartial entity; an \$800,000 premium increase in State Compensation Insurance Fund; and \$900,000 for an Electronic Records Management system and Department of General Services fees.

Enterprise Shared Costs – The FY 2015-16 budget included \$13.5 million to fund Strategic Initiatives (\$7 million) and Pro Rata and SWCAP (\$6.5 million) costs. In comparison, the FY 2016-17 budget proposes a decrease to \$3 million for Strategic Initiatives and an increase to \$8 million for Pro Rata and SWCAP.

Figure 5 compares FY 2015-16 to FY 2016-17 by expense category and illustrates the continued decrease in contractual obligations as the organization exits its establishment phase, slightly offset by increases in personal services and operating expenses and equipment to accommodate increased workload and the assumption by state staff of tasks previously performed by contractors. A portion of the reductions were offset by an increase of approximately \$11 million for employee compensation and rising statewide benefits costs.

FIGURE 5
Expense Category: FY 2015-16 compared to 2016-17
(Dollars in Millions)

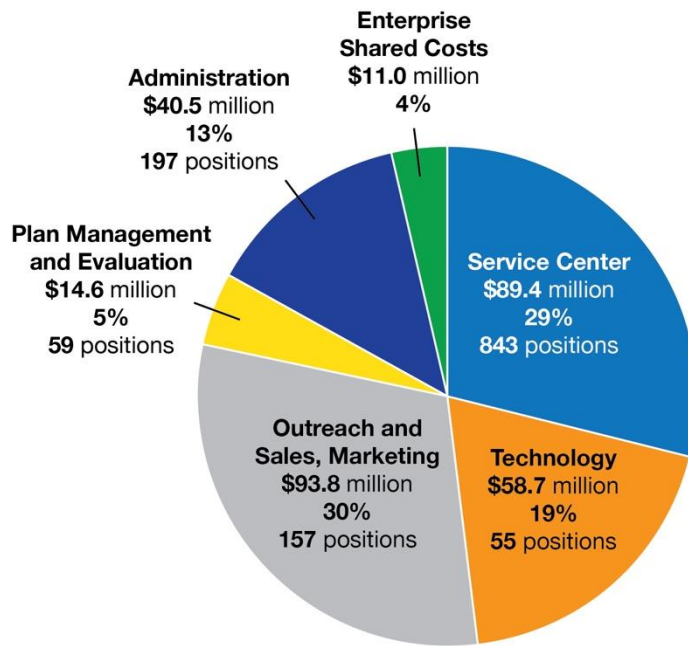


VIII. Proposed FY 2016-2017 Budget

The FY 2016-17 Covered California budget, presented in Figure 6, incorporates the resources to support activities for the organization’s first year operating solely on plan assessments and reserves. Covered California anticipates expending all federal funding by the end of FY 2015-16. The budget framework is informed by Covered California’s Financial Guiding Principles and Strategic Pillars; the FY 2015-16 Projected Expenditures; the 2016 Enrollment and Revenue forecasts; and the Multi-Year Forecast. The budget provides 1,311 positions and \$308 million to fund program operations, which is \$27 million, or eight percent, less than the FY 2015-16 approved budget.

FIGURE 6

FY 2016-17 Budget \$308 million



From a program operations perspective, the budget includes resources to fund the following goals:

- \$93.8 million for Outreach and Sales, Marketing efforts, including \$36 million for paid media and a \$5 million Navigator program to inform California citizens about our programs and encourage retention of those who have enrolled.

- \$89.4 million for Service Center resources to provide a level of service comparable to 2015-16 and repurposing vacant positions to improve the adjudication of appeals work.
- \$36.1 million for the FY 2016-17 program requirements of the CalHEERS 24-month road map.
- \$2 million to establish an Ombudsman program to facilitate resolution of consumer issues escalated in advance of the formal appeals process.

This budget seeks to fund the delivery of critical programs, while keeping expenditures at a level necessary to execute a multi-year plan that will allow revenue to exceed expenditures as early as FY 2017-18, while maintaining robust reserves to accommodate enrollment variations from forecasts.

HIGHLIGHTS AND INITIATIVES

Assessment Fee Transition

Covered California is transitioning from Federal Establishment Grant funding to plan assessment-funded operations. In strict accordance with the financial mandates set forth under Government Code section 100503, Covered California maintains its fund reserves at a level that is sufficient to assure an adequate balance in the movement to financial alignment and to allow for timing lags needed to adjust revenue and expenditures including adjustments in plan assessments.

Covered California is changing from a per member per month (PMPM) fee to an assessment based upon a percentage of premiums. This change will make for a more equitable distribution of assessments across the health plans. Covered California is proposing moving from the \$13.95 per member per month assessment to an assessment rate of 4 percent of premium.

Initiatives to Promote Long Term Affordability and Quality

The Covered California Board adopted significant health care reforms to improve quality and health care delivery. These reforms, which will cover the years 2017-2019, will advance ongoing efforts by health insurance companies, hospitals and care providers to ensure that patients receive quality health care.

The new contract provisions seek to address the challenges in our current health care system and provide guidance for the future that will address both quality and costs, such as strengthening value-based, patient-centered benefit designs to improve access to primary care. In addition, Covered California uses core levers to promote better quality and lower costs, such as:

- Requiring providers to meet quality standards without exception, to provide safe care for all, including various racial and ethnic groups.
- Adopting payment strategies that support quality performance.

- Adopting proven models of primary care and integrated delivery models.
- Providing tools to help consumers make informed choices when selecting providers.

These changes are expected to provide system-wide efforts to lower costs and improve quality for all Californians.

Technology

Information Technology Infrastructure Investment

Covered California has identified a number of areas where technology investments will improve the consumer experience and create operational efficiencies. Many of the operational efficiencies will be in areas that will assist with acquisition and retention of members. These should provide technology solutions that will streamline current work performed manually in the service center. Covered California is investing \$9.7 million in the following initiatives to better serve our members. These efforts will focus on the following:

- Processing of consumer verification documents.
- Automating standard consumer disclaimer statements.
- Expanding consumer outreach channels to include text and voice messaging.
- Expanding the use of geospatial information to better deploy our salesforce to meet the highest needs and to continue analysis of network adequacy.
- Enhancements to the service center tools to allow for additional consumer self-service through interactive voice response (IVR).

CalHEERS

With the start of FY 2016-2017, the program sponsors of CalHEERS — Covered California and Department of Health Care Services (DHCS) — will officially turn over the oversight and project management of CalHEERS to the Office of Systems Integration (OSI). The transition effort has been underway for the past fiscal year, and will result in increased efficiencies and streamlining of both maintenance and operations efforts as well as enhancements to the solution through the application of OSI's best practices in project management.

Some of the most significant enhancements coming in FY 2016-2017 include:

- A major upgrade to the consumer application process in time for the 2017 open enrollment period which will provide enhanced consumer decision support tools and key upgrades to assist consumer enrollment assistance channels.
- Continued refinement in some of the most technically challenging areas such as income and carrier transactions that will focus on improving usability and understanding for consumers, while ensuring timely and accurate transactions between Covered California and carriers.

- Implementation of additional lessons learned through Covered California’s second renewal period and 1095-A issuance with the goal of solidifying a streamlined, accurate, and consumer-friendly process.
- Advancements in the tools available to consumer assistance channels.

In addition, the CalHEERS project will ramp up re-procurement efforts. With the initial five-year contract with the prime systems integrator in FY 2016-2017, re-procurement efforts will focus on necessary activities to evaluate and address ongoing needs for management, maintenance, operations, and enhancements.

Service Center and Consumer Support

The budget provides \$89.4 million to fund Service Center operations, a level consistent with FY 2015-16 expenditures, with expectations that the consumer experience continues to improve through a variety of innovative initiatives, including the following:

- Ensuring that Service Center tools and knowledge base improve to provide Service Center Representatives (SCR) the needed resources to consistently provide consumers with accurate and timely information.
- Re-designing the Quality Assurance Program Partner with Covered California University to establish ongoing SCR/support staff and refresher training for Service Center leadership.
- Introducing technological solutions to improve efficiencies.
- Furthermore, the budget allows for more staff to be dedicated to appeals cases.

The budget also reflects allocation of \$2 million within the Office of Legal Affairs for the establishment of an Ombudsman Program to assist in the resolution of complex consumer issues. While the Ombudsman Program will work closely with the Service Center, it will be independent of the Center.

Outreach & Sales, Marketing

Committed to increasing membership and maximize membership retention — the budget proposes \$93.8 million for marketing efforts, including \$36 million for paid media marketing and consumer research. Covered California’s marketing program’s goal is to achieve membership acquisition, retention and renewal through strategic, cost-effective use of marketing in collaboration with Sales, Outreach, Public Relations and Operations programs. The Marketing program’s strategies focus on the following key activities:

- Continue to focus marketing campaigns on motivating Californians to enroll during open enrollment and special enrollment.
- Expand growth of new customers by integrating efforts across marketing/advertising campaigns, sales channels, and outreach programs.

- Increase brand awareness broadly and increase consumer engagement specifically with harder to convince subsidy eligible consumers, by developing and executing relevant multi-cultural, multi-channel marketing and advertising campaigns.
- Optimize customer conversion, retention and renewal by using a personalized customer relationship marketing approach.
- Continue the efficient and effective use of social media to expand customer outreach, improve brand engagement and improve customer services.
- Continue to promote dental, vision and other new services.
- Maximize marketing return on investments by leveraging insights from consumer research and marketing campaign analytics.

Successfully achieving and maintaining the optimal level of enrollment by helping eligible Consumers enroll and re-enroll in a Covered California health insurance plan. The outreach, sales and marketing functions are focused on helping all certified enrollment representatives assist eligible consumers to enroll and re-enroll in a Covered California health insurance plan. Certified enrollment representative activities include:

- Informing Covered California subsidy- and non-subsidy eligible consumers of the availability and benefits of obtaining health care coverage.
- Promoting the value of purchasing health care coverage.
- Helping consumers to shop for coverage and compare plans.
- Facilitating enrollment into Covered California health insurance plans.
- Assisting consumers with the Covered California renewal process.
- Providing post-enrollment outreach and support to Covered California consumers.

The Outreach, Sales and Marketing strategies will focus on the following:

- Supporting all certified enrollment representatives (Certified Insurance Agents, Navigators, Certified Enrollment Counselors, and Plan-Based Enrollers) by:
 - Providing timely and effective training and communication.
 - Maintaining a high-performing Service Center to support certified enrollment representatives.
 - Providing access to enrollment supplies.
 - Providing more enrollment support in the field.
- Making it easier for consumers to find in-person enrollment assistance by improving Covered California’s “Find Local Help” web portal. “Find Local Help” is where consumers find certified storefront locations, enrollment events or a Covered California enrollment representative in their community.

Navigator Grant Program

The Navigator Grant Program, mandated by the Patient Protection Affordable Care Act, awards funding through a Request for Application process and is administered by Covered California. Grant funds are awarded to for-profit and nonprofit community-based organizations and community health centers to enroll and re-enroll eligible California consumers into a Covered California health insurance plan. These grantees have successfully reached underserved populations (e.g., Latinos, Asian/Pacific Islanders, African Americans and the LGBTQ community) and have demonstrated their ability to meet HHS requirements by providing focused “targeted assistance”.

Covered California considered funding options at \$3 million, \$5 million, and \$7 million. Funding for this program is proposed at the mid-range (\$5 million) of funding options considered which maintains community expertise and consumer support across targeted populations and ethnicities.

Covered California for Small Business

Covered California for Small Business (CCSB) is California’s Small Business Health Options Program which is available to small businesses with one to 100 employees. The program makes it easy for small businesses to offer their employees a wide choice of affordable and popular health insurance plans. Small businesses that buy health insurance through Covered California may qualify for federal tax credits to offset part of their costs.

This year the program will continue its focus on new business growth to include attracting and retaining employers in the one to 100 employee market and by increasing the number of Certified Insurance Agents who place business with Covered California for Small Business. Covered California for Small Business is focused on the following strategies:

- Operational and administrative improvements to reduce distribution costs, improve processing times and improve the compensation process for Certified Insurance Agents, general agents and health plans.
- Outreach and enrollment efforts that include Certified Insurance Agents, storefronts, Navigators and small business and community groups.
- Marketing strategy that includes a print and premium digital advertising campaign to California small businesses and an agent-focused program called SHOP works that provides agents with tools to identify small business owners who are interested in enrolling.

X. Covered California Program Details

Plan Management and Evaluation.....	33
Outreach and Sales, Marketing	38
Service Center.....	49
Technology	51
Administration.....	56
Shared Enterprise Costs	71

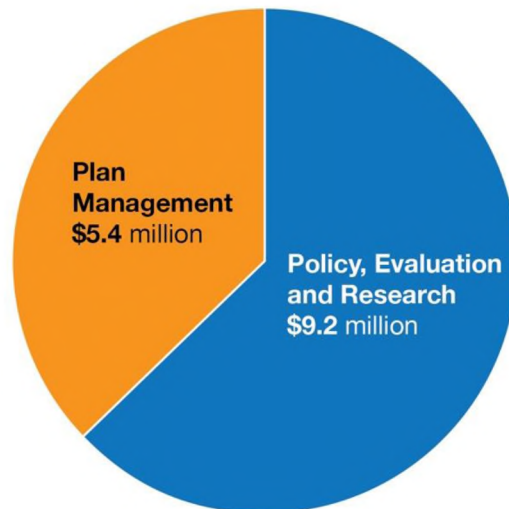
Plan Management and Evaluation

Plan Management and Evaluation includes the Policy, Evaluation and Research Division and the Plan Management Division. The total budget for FY 2016-17 for Plan Management and Evaluation is \$14.6 million.

Plan Management and Evaluation Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	39	54	59
Personal Services	\$ 1,807,441	\$ 4,129,980	\$ 4,426,706
Benefits	\$ 741,094	\$ 1,941,091	\$ 2,239,696
Contracts	\$ 8,664,379	\$ 10,797,511	\$ 7,627,960
OEE	\$ 73,780	\$ 432,000	\$ 354,000
Total Expenses	\$ 11,286,693	\$ 17,300,582	\$ 14,648,362

Plan Management and Evaluation FY 2016-2017 Proposed Budget



Plan Management

The Plan Management Division ensures Covered California offers competitive health benefit programs that provide consumers with the best value in health plans.

The Plan Management team delivers value to Covered California consumers by selecting and managing the relationship with contracted health plans. Through deep understanding of plan benefit designs, plan product and network options, and plan clinical and quality programs, we select health plans that provide the best quality, network access and value.

Key Activities

- Annual plan recertification and certification.
- Contract compliance, data management and regulator partnerships.
- Quality network management and delivery system reform.

Key Accomplishments

- Recertified 10 health plans and negotiated an average rate increase of only 4.2 percent for 2015, which continues to allow individuals to purchase quality health coverage at affordable rates.
- Engaged stakeholders, regulators and plans in a comprehensive review of Covered California's standard benefit designs, which resulted in changes for the 2016 plan year that increase consumer transparency and promote preventative care. This includes significant changes in specialty drugs that will likely influence changes in the design of specialty drug benefits of other large purchasers both within California and in other states.
- Finalized an organizational redesign of the Plan Management Division that will transition from the use of outside contractors to permanent state staff and contribute to the overall long-term financial sustainability of Covered California.
- Developed a process and reporting mechanism to ensure all health insurance companies have a minimum threshold of contracted Essential Community Providers and have identified contracting opportunities where there is a high concentration of low-income, uninsured populations.

Plan Management Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	25	26	28
Personal Services	\$ 1,190,873	\$ 2,216,888	\$ 2,294,803
Benefits	\$ 487,576	\$ 1,041,937	\$ 1,161,058
Contracts	\$ 3,278,304	\$ 3,122,511	\$ 1,777,960
OEE	\$ 53,563	\$ 208,000	\$ 168,000
Total Expenses	\$ 5,010,315	\$ 6,589,336	\$ 5,401,820

Budget Highlights

- The budget includes an addition of \$153,655 in personal services and benefits for two new positions to support the quality initiatives.
- The contract budget includes:
 - \$525,000 for actuarial services.
 - \$460,000 for medical advisory and clinical support.
 - \$370,000 for project management.
 - \$422,960 for quality assurance and various other services.

Activities Supporting Covered California's Mission and Strategy

- Hire and fill positions to transition to the new Plan Management Division infrastructure.
- Through the recertification and certification effort, demonstrate rate moderation and allow for new plan choices.
- Support the contracted health plan reconciliation process.
- Further develop the internal and external plan management communication model.

Policy, Evaluation and Research

The Policy, Evaluation and Research Division provides accurate, complete and timely policy and data analysis to support evidence-based decision making. Through its Eligibility Operations Unit, the Policy, Evaluation and Research Division also ensures implementation of program eligibility rules.

Key Activities

- Develop and direct policy.
- Coordinate federal and state exchange policy and regulations.
- Design manual and automated eligibility processes and verifications.
- Draft member communications.
- Perform data analysis and modeling.
- Design research, evaluation and surveys.
- Publicly report data.

Key Accomplishments

- Hosted public engagement process on Section 1332 State Innovation Waiver and released analysis of stakeholder recommendations (available at: <http://hbex.coveredca.com/stakeholders/Covered%20California%201332%20Waiver/index.shtml>).
- Published Covered California Active Membership Profile and member survey data (available at <http://hbex.coveredca.com/data-research/>).
- Refined eligibility processes to ensure that consumer communications are clear and effective.
- Initiated Covered California's Healthcare Evidence Initiative.

Policy, Evaluation and Research Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	14	28	31
Personal Services	\$ 616,568	\$ 1,913,093	\$ 2,131,903
Benefits	\$ 253,518	\$ 899,154	\$ 1,078,638
Contracts	\$ 5,386,075	\$ 7,675,000	\$ 5,850,000
OEE	\$ 20,217	\$ 224,000	\$ 186,000
Total Expenses	\$ 6,276,378	\$ 10,711,246	\$ 9,246,542

Budget Highlights

- The budget includes \$223,594 for three new positions to support eligibility operations and oversight.
- The contract funding includes a decrease of \$2.7 million primarily due to a reduced need to depend on outside appeals support and other consulting resources.
- The contract budget includes:
 - \$4,167,200 for analytics and modeling.
 - \$182,800 for consulting services.
 - \$1,500,000 for readability and translation services.

Activities Supporting Covered California’s Mission and Strategy

- Continue to refine eligibility processes to ensure compliance while ensuring a simple and positive consumer experience.
- Under the Healthcare Evidence Initiative, analyze consumer access to care through clinical, enrollment and qualitative survey data and identify opportunities for improvements.
- In partnership with Plan Management and the chief actuary, provide data and model to describe consumer response to the prior year’s products and price in support of rate negotiations.

Key projects include, but are not limited to the following:

- Finalize Eligibility Operations Manual.
- Automate consumer program transitions as they move in and out of coverage with Covered California.
- Implement claims data warehouse.

Outreach and Sales, Marketing

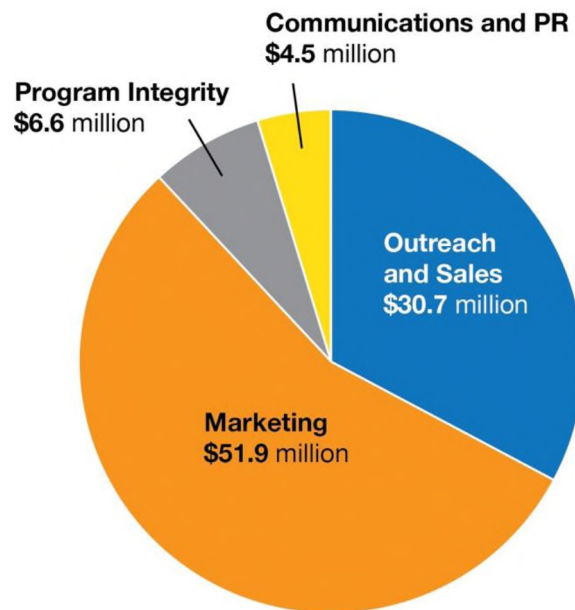
Outreach and Sales, Marketing includes the following program areas: Outreach and Sales, Marketing, Program Integrity and Communications and Public Relations.

The total budget for FY 2016-17 for Outreach, Sales, and Marketing is \$93.8 million.

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	113	152	157
Personal Services	\$ 5,856,177	\$ 10,476,902	\$ 11,033,858
Benefits	\$ 2,580,214	\$ 4,883,882	\$ 5,524,109
Contracts	\$ 144,615,211	\$ 104,935,690	\$ 76,305,752
OEE	\$ 507,345	\$ 1,216,000	\$ 942,000
Total Expenses	\$ 153,558,948	\$ 121,512,473	\$ 93,805,719
Reimbursements	\$ (9,950,456)	\$ -	\$ -
Total Operating Costs	\$ 143,608,492	\$ 121,512,473	\$ 93,805,719

Outreach and Sales, Marketing

FY 2016-2017 Proposed Budget



Outreach and Sales

The Outreach and Sales Division has oversight over the following programs: Navigators, Certified Insurance Agents, Certified Application Entities, Plan Based Enrollers and Medi-Cal Managed Care Plan. The division is also responsible for the Covered California for Small Business program. The division provides support, education and compensation to all Covered California's partners in order to maximize enrollment in Covered California.

For the Covered California for Small Business program (formerly SHOP), the organization has contracted with an outside vendor to administer the program, including sales, operations, agent communications and agent compensation.

Key Activities

- Develop and implement the sales strategy for both the individual and small business exchanges.
- Build and manage productive relationships with all sales channel partners to promote community-level outreach and enrollment throughout California.
- Sales channel training, communication and support.
- Development and oversight of client management tools and technology.
- Manage the following programs: Navigator Grant Program, Certified Application Counselor (CAC) Program, Plan-Based Enroller (PBE) Program, Medi-Cal Managed Care Plan (MCMC) Program and Community Outreach Network and Covered California for Small Business.

Key Outreach and Sales Accomplishments

- Improved and grew the Covered California certified enrollment Storefront program to over 500 storefronts. Improved the Storefront website located in the "Find Local Help" page of CoveredCA.com.
- Invested in and developed Geographic Information Software (GIS) to develop heat maps that informed strategies to reach and enroll subsidy-eligible uninsured consumers across all communities, both by race and ethnicity and in underserved communities. The heat maps that identified "hot spots" where large numbers of subsidy-eligible uninsured consumers also resulted in a high volume of news stories across the state during open enrollment which supported the marketing effort and resulted in strong enrollment during Covered California's third open enrollment.
- Implemented the new Navigator grant program including 67 grantees which resulted in over 30,000 consumers being assisted with enrollment and renewal in a Covered California plan.

- Established a regional ground campaign to provide local support for outreach and enrollment activities across California.
- The new regional sales team, with representatives located remotely throughout California, successfully:
 - Developed over 100 new agent and navigator storefronts.
 - Led a large number of both Open Enrollment Kickoff and Special Enrollment Kickoff meetings throughout the state to promote and train all certified enrollers on Covered California.
 - Led canvassing efforts, in coordination with navigator grantees and community partners, in “hot spot” areas to promote open enrollment.
 - Supported the development of new agents and worked to strengthen relationships with high volume producers.
- Grew the new Agent and Certified Enroller service center to assist enrollers with questions or issues involving enrolling and renewing consumers in Covered California.

Key Small Business Accomplishments

- Grew membership by 83 percent.
- Increase group retention rate by 27 percent.
- Increased the number of writing agents by 70 percent.
- Improved the process to pay agent commissions to within 45 to 60 days.
- Improved operations resulting in enrolling new “clean” groups within three days 98 percent of the time — industry standard.
- Deployed general agent and agent online enrollment portal. One hundred percent of cases (60 percent of all members enrolled) submitted by general agents is submitted electronically resulting in administrative efficiencies and greatly improved the speed of new case implementation.

Outreach and Sales Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	28	54	57
Personal Services	\$ 2,030,901	\$ 3,729,451	\$ 3,977,269
Benefits	\$ 847,056	\$ 1,715,595	\$ 1,977,709
Contracts	\$ 59,954,990	\$ 34,102,300	\$ 24,420,938
OEE	\$ 257,503	\$ 432,000	\$ 342,000
Total Expenses	\$ 63,090,450	\$ 39,979,346	\$ 30,717,916
Reimbursement	\$ -	\$ -	\$ -
Total Operating Costs	\$ 63,090,450	\$ 39,979,346	\$ 30,717,916

Budget Highlights

- The budget includes an increase of \$178,863 for two new positions to support CCSB and establish the Agent Support team.
- The budget sustains Navigator program funding at \$5 million which maintains community expertise and consumer support across targeted populations and ethnicities.
- The contract budget includes:
 - \$25,000 for background and fingerprinting.
 - \$15,478,338 for CCSB admin and agent support.
 - \$1,250,000 for CCSB marketing.
 - \$500,000 for consulting services.
 - \$5,917,600 for Navigator and IPAS.
 - \$1,250,000 for various other services.

Activities Supporting Covered California's Mission and Strategy

- Continued development of the Sales Division technology capabilities to manage and support channel partners.
- Continued regional ground campaign with increased field support.

Marketing

Covered California's outreach, marketing and education efforts factor in key demographic, educational, economic, social/cultural attributes and lifestyle drivers to define key target audiences, allowing us to tailor relevant communications to motivate consumers to enroll in and keep health insurance coverage through Covered California.

Key Activities

- Perform market/consumer research to understand the customer mindset.
- Create the marketing strategy to attain the organization's objectives and achieve enrollment goals.
- Develop and execute mass communication tactics that align with approved strategy, including media planning and buying, creative development and production and social media.
- Develop and execute a retention/renewal program and Customer Relationship Management program to nurture and convert leads acquired from marketing, outreach and education efforts. Deepen member relationships through personalized, timely and relevant communications building loyalty and trust to generate advocacy.
- Analyze results from a return on investment standpoint and recommend improvements.

Key Accomplishments

- Implemented a successful multiethnic, multichannel marketing campaign that resulted in 439,000 new plan selections during open enrollment.
- Launched the new "It's more than just health care. It's life care." advertising campaign with efforts tailored by segment, including Latino, African American, Asian/Pacific Islander, LGBT and multi-segment.
- The Retention and Renewal program effectively targeted existing members with approximately 1.13 million enrollees renewing their membership in 2015.
- The social media campaign established a highly visible presence on Facebook, Twitter and YouTube to engage directly with Californians and functioned as a successful customer service platform.
- Promoted new dental plan offerings and gained approximately 168,000 dental plan selections during open enrollment.

Marketing Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	23	24	24
Personal Services	\$ 1,018,729	\$ 1,857,587	\$ 1,809,004
Benefits	\$ 448,993	\$ 873,066	\$ 915,267
Contracts	\$ 62,757,679	\$ 68,021,715	\$ 49,067,814
OEE	\$ 64,840	\$ 192,000	\$ 144,000
Total Expenses	\$ 64,290,241	\$ 70,944,367	\$ 51,936,086

Budget Highlights

- The budget includes a reduction in postage costs related to CalHEERS notification while maintaining funding for voter registration at \$2.3 million, the same level as FY 2015-16.
- To support the statewide marketing effort, the budget includes \$36 million for paid media.
- The contract budget includes:
 - \$4,687,183 for collateral/fulfillment/printing.
 - \$2,088,000 for market research.
 - \$36,000,000 for marketing contract.
 - \$4,000,000 for CalHEERS postage.
 - \$2,292,631 for voter registration.

Activities Supporting Covered California's Mission and Strategy

- Optimize customer conversion, retention and renewal by using a personalized customer relationship marketing approach.
- Continue to focus marketing campaigns on motivating Californians to enroll during open enrollment and special enrollment.
- Continue the efficient and effective use of social media to expand customer outreach, improve brand engagement and improve customer services.
- Continue to promote dental, vision and other new services.
- Maximize marketing return on investment by leveraging insights from consumer research and marketing campaign analytics.

Program Integrity

The Program Integrity Division within Covered California partners and collaborates with all program areas to improve system and operational efficiencies when consumers apply and enroll into Covered California. In addition, the Program Integrity Division helps improve program compliance with federal and state regulations and mandates.

Key Activities

- Manage, monitor and reconcile program data to improve accuracy of enrollment information and transactions sent between Covered California, through the California Healthcare Eligibility, Enrollment and Retention System (CalHEERS), to health plans, and federal partners.
- Coordinate and improve the User Acceptance Testing (UAT) process with programs by testing key functions prior to system implementation to reduce the number of critical defects.
- Improve the Post Implementation Review (PIR) processes with programs in order to improve operational efficiencies and compliance with business requirements and program policies.
- Conduct and manage an independent audit function and risk assessment process to help improve program compliance with federal and state regulations and mandates.

Key Accomplishments

- *Reconciliation of Enrollment and Membership (REM)*: During FY 2015-16, Covered California conducted more frequent cycles of the reconciliation process to improve the data integrity of consumers' enrollment information. Active reconciliation throughout the year resulted in approximately a 98 percent data accuracy rate, specifically for consumers' enrollment start and end dates of coverage, as well as member status information with our health plans.
- *1095-A Process*: Over 1 million 1095-A notifications and forms were sent to consumers who received Advanced Premium Tax Credits or enrolled in a non-subsidy qualified health plan. During FY 2015-16, improvements were made to the process based on lessons learned from the prior year. Refinements included additional agency-wide coordination (including collaboration and partnership with the Department of Health Care Services); dedicated and specialized teams being identified to support the 1095 process; improvements to the 1095 training program; and deploying an online dispute process for consumers to use.
- *CalHEERS User Acceptance Testing*: The newly established unit created and implemented processes to perform CalHEERS User Acceptance Testing (UAT). UAT occurs for every CalHEERS priority and feature releases to validate the performance of key functionalities.

- *Risk Assessment Management*: A process was created to document, monitor and prioritize risks, in compliance with the State Leadership Accountability Act (SLAA). The enterprise-wide Risk Assessment process will allow Covered California the opportunity to effectively prioritize risks for mitigation efforts; help identify areas that may require improvements to operational efficiency and effectiveness; and help focus on and prioritize efforts.

Program Integrity Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	40	55	57
Personal Services	\$ 1,570,600	\$ 3,468,563	\$ 3,714,568
Benefits	\$ 778,932	\$ 1,630,225	\$ 1,879,389
Contracts	\$ 18,671,162	\$ 657,675	\$ 675,000
OEE	\$ 37,722	\$ 440,000	\$ 342,000
Total Expenses	\$ 21,058,416	\$ 6,196,463	\$ 6,610,958
Reimbursement	\$ (9,950,456)	\$ -	\$ -
Total Operating Costs	\$ 11,107,960	\$ 6,196,463	\$ 6,610,958

Budget Highlights

- The budget includes an increase of \$209,819 for three new positions to support program oversight and compliance efforts for special enrollment periods.
- The contract budget includes:
 - \$475,000 for audit services.
 - \$100,000 for consulting services.
 - \$100,000 for various other services.

Activities Supporting Covered California's Mission and Strategy

- Help improve system and operational efficiencies when consumers apply and enroll into Covered California.
- Help improve program compliance with federal and state regulations and mandates.
- Actively test key functionalities prior to system implementation, in order to help reduce the number of critical defects.
- Perform ongoing data reconciliation with the carriers to help improve enrollment data integrity and further improve federal reporting related to Covered California membership and consumers' Advance Premium Tax Credit.

Communications and Public Relations

The Communications and Public Relations Division is responsible for the ongoing public information and public relations functions of Covered California.

Key Activities

- Develops, coordinates and executes an extensive proactive program of media relations and public communications, including a large-scale open enrollment launch effort, press releases, press conferences, presentations, speechwriting, Speakers' Bureau coordination, messaging and responses to complex and sensitive media inquiries.
- Provides spokesperson services in English, Spanish and other languages for non-English press outlets.
- Designs and executes communications plans to reach specific ethnic groups such as Latinos, African-Americans and Asian/Pacific Islanders.
- Develops agency-wide messaging on critical and sensitive topics.
- Provides regional communications support with enrollment, education and awareness activities.
- Spearheads design, provides and updates all content for CoveredCA.com, and maintains coherence of content through the English and Spanish mirrored websites.
- Provides quality graphic design services for divisions throughout the organization.
- Develops and maintains communications writing style guidelines.
- Serves as first point of contact with the public for the Speakers' Bureau and assigns speakers to fulfill requests.

Key Accomplishments

- Conducted a successful "Spotlight on Coverage" kickoff bus tour during open enrollment visiting 40 California cities over 11 days, with more than 35 million earned media impressions and an advertising value of nearly \$1.4 million.
- Conducted a "Countdown" media tour during the last few days of open enrollment visiting major cities across the state and conducting one-on-one interviews with prominent media outlets.
- Planned and coordinated more than a dozen press conferences and teleconference calls with state and national media, issued more than 90 news releases (in English and Spanish) and answered hundreds of media calls through our media line.
- Developed 10 fact sheets and four comprehensive reports containing more than 300 pages of content and visuals.

- Redesigned and reorganized the CoveredCA.com website for the third open-enrollment period based on broad-ranging quantitative and qualitative research from multiples sources, including creating the first consumer journey pathway to help orient website users.
- Created and launched the Champions program with two events (one in northern and one in southern California) to educate, train and provide content to individuals that can support the Covered California mission and the culture of coverage.
- Oversaw the African-American Enrollment Initiative, including carrying out public relations and enrollment efforts, with intensive efforts at enrollment centers and through neighborhood canvassing. The Initiative also included pastor toolkits and coordinated appearances at African-American churches.
- Conducted hundreds of broadcast and print media interviews in markets statewide, in English and Spanish during open enrollment.
- As a result of these efforts — and many others — Covered California generated a high amount of earned media coverage in the third open enrollment period — a total of 77.1 million impressions.

Communications and Public Relations Proposed Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	22	19	19
Personal Services	\$ 1,235,947	\$ 1,421,301	\$ 1,533,016
Benefits	\$ 505,234	\$ 664,997	\$ 751,744
Contracts	\$ 3,231,380	\$ 2,154,000	\$ 2,142,000
OEE	\$ 147,280	\$ 152,000	\$ 114,000
Total Expenses	\$ 5,119,841	\$ 4,392,297	\$ 4,540,759

Budget Highlights

- The contract budget includes:
 - \$2,000,000 for Communication services.
 - \$42,000 for student assistance.
 - \$100,000 in various other services.

Activities Supporting Covered California’s Mission and Strategy

- Redesign the look and feel of press releases, so they include video to meet the growing demand for content in the form of infographics and visuals.

- Redesign and update CoveredCA.com based on latest research learnings and the new consumer journey flowing from the improved Plan Preview tool.
- Redesign and reorganize hbex.CoveredCA.com.
- Continue and further develop top-notch communication with Covered California employees so they have a clear understanding of the organization and how it is working.
- Continue to strengthen the division by building the skills and capacity of state employees including training to update skills.

Service Center

The Service Center provides comprehensive pre- and post-enrollment education and support to Covered California consumers by responding to consumer inquiries through Automated Call Distribution (ACD) and Chat, enrolling them in health insurance companies and promptly resolving challenges preventing the consumers from receiving covered health and dental benefits. The Service Center also handles appeals and hearings and completes manual work. Our efforts ensure our consumers receive the right care at the right time at an affordable price, retain Covered California coverage and are satisfied with our products and services.

Key Activities

- Process consumer inquiries.
- Assist in getting consumers enrolled.
- Provide warm transfers to counties via the “Quick Sort” process for individuals that are eligible for other programs.
- Provide support for enrolled assisters, agents, and health plans.
- Provide support for incoming and outgoing mail operations.
- Perform data entry for submitted paper application.
- Process manual verification (inconsistency) documents.
- Process 1095-A disputes.
- Process appeals and represent Covered California in the hearings.

Key Accomplishments

- Processed over 2.5 million consumer assistance calls from July 2015 through March 2016.
- Service Center Representatives enrolled 15 percent of new enrollees for the third open enrollment.
- Assisted with the agents calls.
- Performed multiple successful outbound call campaigns.
- Completed more than 1 million manual work streams.
- Processed 15,600 consumer appeals.
- Improved the IVR which provided consumers with easier ways to access application status information, added Cantonese language to full call flows and self-service and added skills-based routing so calls go to the most qualified SCR.

- Implemented Spanish chat.
- Processed and resolved more than 35,000 1095-A dispute forms.

Service Center Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	1,140	908	843
Personal Services	\$ 35,473,154	\$ 38,524,467	\$ 36,071,341
Benefits	\$ 13,383,541	\$ 14,747,105	\$ 17,843,067
Contracts	\$ 43,915,562	\$ 39,867,505	\$ 28,902,000
OEE	\$ 4,064,125	\$ 6,964,000	\$ 6,543,320
Total Expenses	\$ 96,836,382	\$ 100,103,078	\$ 89,359,728
Reimbursement	\$ (7,322)	\$ -	\$ -
Total Operating Costs	\$ 96,829,060	\$ 100,103,078	\$ 89,359,728

Budget Highlights

- The Service Center budget includes an increase of 14 total staff (an increase of approximately 37 percent) to handle appeals.
- With increases in staffing, outside services for translation, workforce management and appeals have reduced.
- The adjustment in positions from the FY 2015-16 Approved Budget does not reflect any staffing reductions, rather it more accurately reflects total filled permanent and permanent intermittent positions from current year.
- The contract budget includes:
 - \$6,000,000 for appeals
 - \$21,589,000 for call center support
 - \$300,000 for consulting services
 - \$1,013,000 for other various services

Activities Supporting Covered California's Mission and Strategy

- Controlling operational costs in order to deliver products and services that offer high value to our consumers.
- Adding new technology and service center tools to effectuate operational efficiencies to better serve consumers.
- Investing in staff training and development to maximize workforce performance.
- Streamlining business processes to seek operation efficiencies and increase quality of work.

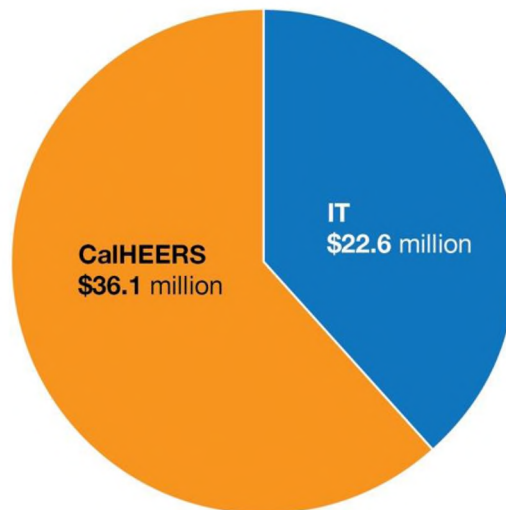
Technology

Technology includes The California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) and the Information Technology (IT) Division. The total budget for FY 2016-17 for Technology is \$58.7 million. In the FY 2015-16 budget, Information Technology was reported as part of the Administration program area and is now reflected in technology area along with CalHEERS.

Technology Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	56	97	55
Personal Services	3,857,779	\$ 7,747,966	4,148,305
Benefits	1,564,595	\$ 3,534,645	2,098,838
Contracts	92,571,160	\$ 37,652,355	47,927,816
OEE	3,798,213	\$ 5,776,000	4,524,900
Total Expenses	\$ 101,791,747	\$ 54,710,967	\$ 58,699,859
Reimbursements	\$ (8,849,420)	\$ (5,940,932)	\$ -
Total Operating Costs	\$ 92,942,327	\$ 48,770,035	\$ 58,699,859

Technology
FY 2016-2017 Proposed Budget



California Healthcare Eligibility, Enrollment and Retention System (CalHEERS)

The California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) project is the system jointly sponsored by the California Health Benefit Exchange and the Department of Health Care Services, with the assistance of the Office of Systems Integration for project management services. The project is governed by an executive steering committee that represents each of the participating agencies and has guided the project since its inception.

Key Activities

- Enhancement, maintenance and operations of the CalHEERS solution to support eligibility determination and enrollment in Covered California and Medi-Cal, including the technical infrastructure for Covered California service centers.
- Liaison between sponsors, partner agencies at the federal and state level and Systems Integrator for operational coordination and efficiency.
- Integrate with health insurance companies for enrollment.
- Federal and state reporting, management and interface responsibilities.
- Project management services.

Key Accomplishments

- CalHEERS processed renewals for health insurance companies for 2016 with a greatly reduced need for manual renewals resulting in most consumers receiving a streamlined and simple renewal for 2016.
- The 1095 processing for the 2015 plan year was completed on time with a small percentage of consumers requiring corrections, a significant improvement over the 2014 plan year.
- Implemented email notifications for consumers who selected email as their preferred method of communication resulting in a better consumer experience and operational savings for the organization.
- Added the ability to shop for adult dental plans for the 2016 Open Enrollment period.
- Added a Cantonese call flow in the IVR system for callers.
- Continued updates to the CalHEERS 24-month roadmap.

CalHEERS Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	26	53	0
Personal Services	\$ 1,925,241	\$ 4,456,482	\$ -
Benefits	\$ 829,301	\$ 1,987,647	\$ -
Contracts	\$ 90,747,670	\$ 35,542,355	\$ 36,087,816
OEE	\$ 105,506	\$ 424,000	\$ -
Total Expenses	\$ 93,607,718	\$ 42,410,485	\$ 36,087,816
Cost Sharing	\$ (8,849,420)	\$ (5,940,932)	\$ -
Total Operating Costs	\$ 84,758,298	\$ 36,469,553	\$ 36,087,816

Budget Highlights

- The transition of oversight and project management of CalHEERS to the Office of Systems Integration (OSI), which includes the transfer of those staff who had been Covered California employees to OSI.
- The contract budget includes:
 - \$36,087,816 for program partners

Activities Supporting Covered California's Mission and Strategy

- Continue to implement operational improvements from the CalHEERS 24-month roadmap to ensure the organization's technical infrastructure is properly maintained, secured, supports capacity demands and achieves business goals.
- Appropriately equip authorized end users with tools necessary to serve consumers effectively and to handle exception situations.
- Upgrade consumer decision support tools for plan selection to provide better consumer support and expand product offerings within CalHEERS.
- Ensure business partners are able to receive, exchange and reconcile appropriate consumer information on a timely basis.

Information Technology

The Information Technology (IT) Division delivers quality services, support and technical solutions to achieve the business objectives of Covered California. The IT Division also includes the Information Security Office (ISO). The IT Division aims to provide services and tools to all divisions within Covered California, consumers, and business partners to support effective, secure, and efficient operations and enrollment services in a manner that is financially sustainable. IT support for Covered California operations includes gathering requests for services, analyzing business needs, coordinating and prioritizing, evaluating possible solutions, developing and/or procuring professional services and implementing solutions, and providing ongoing support. The ISO evaluates and oversees the security architecture of all Covered California IT solutions. In addition, the ISO serves as the primary liaison for federal partners on security-related items.

Key Activities

- Enterprise architecture/IT governance.
- Development, implementation, maintenance and operations of the Covered California technical infrastructure.
- Oversight and contract management of “cloud” or “hosted” technology.
- Data and technical infrastructure security.

Key Accomplishments

- A new web-based solution to find local help through Covered California storefronts.
- Development of a financial management grant distribution tracking database.
- Implementation of over 50 internal Intranet-based collaboration sites providing support for internal organization units, projects, asset management, and real-time dashboards.
- Implementation of secure extranet sites used by approximately 17,000 carriers, agents, county workers (for training materials), auditors and more than 34,000 consumers to date.
- Website enhancements including “Real Stories,” a full accessibility assessment and overhaul, and a new look and feel.
- Implementation of automated consumer marketing tools.
- Pilot implementation of Salesforce.com to support Covered California sales team.
- Enhancements to the Customer Relationship Management (CRM) tools in the service center including piloting a new knowledge base, “text to chat” and Spanish chat for consumers.
- Introduction of a data management strategy for the CRM tools that to date have resulted in the ability to archive more than 9 million duplicate consumer contacts

resulting in small but consistent reductions in average call times for service center representatives.

Information Technology Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	30	44	55
Personal Services	\$ 1,932,538	\$ 3,291,484	\$ 4,148,305
Benefits	\$ 735,294	\$ 1,546,998	\$ 2,098,838
Contracts	\$ 1,823,490	\$ 2,110,000	\$ 11,840,000
OEE	\$ 3,692,707	\$ 5,352,000	\$ 4,524,900
Total Expenses	\$ 8,184,029	\$ 12,300,482	\$ 22,612,043

Budget Highlights

- The budget includes a \$9.7 million investment in IT infrastructure to drive efficiencies throughout the organization and provide better customer service
- To support the investment in IT projects and infrastructure, the budget includes \$1,275,428 in funding for new positions.
- The contract budget includes:
 - \$9,700,000 million for IT infrastructure projects.
 - \$150,000 for project management.
 - \$1,190,000 million for security.
 - \$1,100,000 million for other contracts.

Activities Supporting Covered California's Mission and Strategy

- Support recertification through CMS for the CalHEERS Authority to Connect (ATC) to federal data services.
- Continue work on a full data management strategy for CRM.
- Implement additional IVR enhancements to improve the consumer experience for callers.
- Pilot an automated solution for processing of consumer verification documents.
- Extend marketing capabilities beyond paper and email to text and voice messaging.
- Continue work to enhance Covered California's sales force tools.

Administration

Administration includes the following program areas: Financial Management, Business Services, Human Resources, Covered California University, Legal Affairs, the Executive Office and External Affairs. The total budget for FY 2016-17 for Administration is \$40.5 million. As previously mentioned, Information Technology was reported as part of the Administration program area in the FY 2015-16 Approved Budget and is now reflected in technology area along with CalHEERS.

Administration Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	172	188	197
Personal Services	\$ 10,747,088	\$ 13,217,731	14,534,927
Benefits	\$ 4,626,139	\$ 6,212,638	8,720,702
Contracts	\$ 4,381,680	\$ 12,518,520	11,382,400
OEE	\$ 8,522,030	\$ 1,910,000	5,827,392
Total Expenses	\$ 28,276,936	\$ 33,858,889	\$ 40,465,421
Reimbursements	\$ (207,855)	\$ -	\$ -
Total Operating Costs	\$ 28,069,081	\$ 33,858,889	\$ 40,465,421

Administration
FY 2016-2017 Proposed Budget



Financial Management

The Financial Management Division (FMD) provides fiscal oversight for the organization and processes financial transactions for our partners. The division is responsible for planning, implementing, directing and controlling all financial-related activities of the exchange, including finance, accounting, forecasting, budgeting, and grant compliance.

Key Activities

- Financial Planning and Analysis
- General Ledger and Payables
- Account Receivables and Reconciliation
- Economic Analysis and Sustainability

Key Accomplishments

- Published Covered California's Fiscal Year 2015-16 Budget Book, which includes a multi-year financial summary of all revenues, expenditures and staffing utilized by each of Covered California's programs.
- Met with other state and health insurance company CFOs to establish strong sustainability, cash management, long-term capital planning and budget policies to achieve sustainability.
- Developed new monthly enrollment and plan assessment revenue forecast report to support operational planning and decision-making including tracking expenditures against budget.
- Reconciliation, enrollment, and membership: Provided extensive and timely assistance to verify enrollment data as well as to test the implementation of numerous enrollment system modifications. This assistance was critical to achieving a variety of mission-critical objectives including ensuring successful 2016 health plan renewal, minimizing erroneous APTC information reported on 1095 forms, and supplying accurate financial information for revenue forecasts.
- Secured Federal approval for Covered California's second no-cost extension of the 2 Grant to continue implementation of program activities to ensure successful execution of our mission.
- Managed federal grant budgets by closely monitoring and tracking grant funded implementation expenditures and sustainability funded operational expenditures, and produced standard and ad hoc reports required by CCIIO/CMS.
- Provided critical support to promulgate Covered California's permanent regulations in accordance with the Administrative Procedures Act by developing regulatory economic and fiscal impact analyses.

- Continued our strong dedication to customer service by providing our program partners with sound fiscal analyses and recommendations, improved budgeting documents and templates, and creative and realistic solutions to their budget needs.
- With the introduction of the Structured Query Language (SQL) database, Covered California improved contract-processing times for certified agents from a nine-month backlog to a current three-day cycle, resulting in fewer amendments and a fully electronic retention process.
- Enhanced banking services that include use of optical character recognition (OCR) for the small business employer invoices, which improved the cash cycle posting time from nine weeks to less than nine business days.

Financial Management Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	59	55	55
Personal Services	\$ 3,624,838	\$ 4,005,073	\$ 4,244,026
Benefits	\$ 1,486,754	\$ 1,882,384	\$ 1,937,160
Contracts	\$ 2,004,927	\$ 3,082,325	\$ 3,371,000
OEE	\$ 1,798,329	\$ 440,000	\$ 455,000
Total Expenses	\$ 8,914,848	\$ 9,409,782	\$ 10,007,186
Reimbursements	\$ (201,000)	\$ -	\$ -
Total Operating Costs	\$ 8,713,848	\$ 9,409,782	\$ 10,007,186

Budget Highlights

- The contract budget includes:
 - \$2,750,000 for accounting services.
 - \$386,000 for consulting services including \$350,000 in new funding for forecasting more modelling research.

Activities Supporting Covered California's Mission and Strategy

- Supporting a culture of continual improvement for budget, forecasting and accounting practices, policies, procedures and systems to better support program operations.
- Pursuing department-wide efforts to evaluate, streamline and prioritize program functions to identify efficiencies and improve customer service to maximize enrollment and retention.
- Continuing to support department-wide efforts to develop policies, procedures, strategies and systems to enhance these critical efforts.

Administrative Services Division

Provides an array of central support services to provide Covered California's Board, staff, members, and customers with the most effective and efficient level of administrative services to achieve Covered California program and operational objectives. Services are provided through the following independent branches:

Business Services Branch

Business Services is responsible for providing guidance and consultation on contract and purchasing services, health, safety and wellness services and managing our physical resources through facilities operations. The division provides an array of central support services to provide Covered California's Board, staff and customers with the most effective and efficient level of administrative services to achieve Covered California program and operational objectives.

Key Activities

- Consultation on contracting
- Purchasing services
- Health, safety and wellness program
- Administrative services
- Facilities management

Key Accomplishments

- *Contracts Unit:*
 - Completed the Covered California Procurement and Contract Manual for the agency which was adopted by the Board January 2016.
 - Contracting services provided for more than 17,000 Certified Insurance Agents, Certified Enrollment Entities, Navigators, Qualified Health Plan/Qualified Dental Plan/Third Party Administrators, personal services, operational services, and non-monetary agreements.
- *Procurement Unit:*
 - Purchasing services provided for more than 1,000 requests which were processed within a 10-business-day timeline.

Health, Safety and Wellness Unit:

- Implemented the injury and illness prevention program and workplace violence and crime prevention programs at all Covered California locations.
- Provided basic safety training for managers and supervisors along with handbooks with health and safety procedural information.

- Implemented the ergonomic program and procedure for the agency.
- Continued with Annual Safety Inspections and annual evacuation drills.
- *Administration Unit:*
 - Implemented asset management tracking software to conduct the biennial asset inventory and streamline asset management moving forward.
 - Completed the records retention schedules for the entire agency.
 - Continued the development of the Covered California Administrative Manual (CCAM).

Business Services Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	17	31	32
Personal Services	\$ 1,371,422	\$ 1,730,611	\$ 1,783,272
Benefits	\$ 814,681	\$ 813,387	\$ 902,248
Contracts	\$ 449,172	\$ 4,580,333	\$ 1,966,500
OEE	\$ 6,271,196	\$ 373,000	\$ 4,650,592
Total Expenses	\$ 8,906,470	\$ 7,497,332	\$ 9,302,612

Budget Highlights

- The budget realigns funding between contracts and OEE to accurately reflect where services charge.
- The budget includes \$650,000 for an electronic records management system and \$550,000 for additional charges from Department of General Services.
- The contract budget includes:
 - \$150,000 for consulting services.
 - \$1,722,500 for maintenance (operational).

Activities Supporting Covered California's Mission and Strategy

- Continuing to improve processing times and quality of services for all business services requests.
- Automating and streamlining business services related functions to improve operational efficiency and effectiveness.
- Continuing to successfully achieve all business services activities and implementing all legislatively mandated policies and procedures.

Covered California University

Covered California University is the enterprise training and knowledge management branch. Covered California University develops and delivers training to all internal staff and external service channel partners. Working with various programs, Covered California University manages and distributes information to assist Covered California and its external service channel partners who assist consumers with their health care needs. Covered California University administers the technology that supports information and training including the CRM Knowledgebase and Absorb Learning Management System (LMS).

Key Accomplishments

- Fully transitioned all content development activities from consultants to Covered California University's technical writing team.
- Fully transitioned eLearning course development from consultants to Covered California University's training team members.
- Migrated existing eLearning course materials to Articulate Storyline 2 (eLearning course development tool).
- Redesigned Service Center Representative's (SCRs) new hire course which blends eLearning instructions, hands on computer modules, instructor led and additional testing throughout the three-week course to increase competency levels for new staff.
- Trained approximately 1,000 SCRs in nine weeks to support open enrollment.
- Provided a comprehensive series of refresher courses for SCRs prior to open enrollment which decreased call handle times by approximately four minutes.
- Implemented a redesigned knowledge base for use by Service Center staff.

Covered California University Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	0	27	30
Personal Services	\$ 467,320	\$ 1,564,125	\$ 1,852,999
Benefits	\$ 204,138	\$ 735,139	\$ 937,526
Contracts	\$ -	\$ 850,000	\$ 705,000
OEE	\$ 29,350	\$ 416,000	\$ 180,000
Total Expenses	\$ 700,808	\$ 3,565,263	\$ 3,675,525

Budget Highlights

- The budget includes \$233,193 for three new positions to support the ongoing training needs of the department.
- The contract budget includes:
 - \$50,000 for consulting services.
 - \$50,000 for licenses.

Activities Supporting Covered California's Mission and Strategy

- Developing and applying content standardization and best practices to all courses and knowledge materials across the organization.
- Leveraging existing and new technologies and blended training delivery systems to enhance all Covered California programs and partners by providing opportunities for professional learning and growth.

Human Resources Branch

Human Resources Branch (HRB) is responsible for all personnel functions related to recruitment and hiring, payroll and benefits, performance management, examinations, disability management, and labor relations. The branch provides overall policy direction on human resource management and administrative support functions related to the management of employees.

Key Activities

- Classification and pay
- Employee benefits
- Examinations
- Recruitment
- Workers' compensation
- Performance management
- Labor relations

Key Accomplishments

Performance Management Unit:

- Provided essential consultation and performance management training to departmental supervisors and managers.

Disability Management Unit:

- Development and implementation of the Family Medical Leave Act/California Family Rights Act program to include Employee/Supervisor Handbook, procedure and training to all staff and management.
- Continuous improvement to the HRB SharePoint site.

Classification and Pay unit:

- Developed, administered, reviewed and maintained the job evaluations and descriptions, pay structures, variable pay programs and position allocation/salary studies.
- Provided consultative services to departments on classification and compensation matters.

Selections and Certification Unit:

- Utilized various recruitment strategies to successfully implement and maintain focused efforts in the hiring and retaining of bilingual employees.
- Strategic partner by providing Human Resources programs that attracted, developed, retained, and engaged a skilled and diverse workforce.
- Provided recruitment/selection support to programs. Track applicants, analyze staffing trends and processed all personnel actions. Ensured compliance with all applicable laws, regulations and code.

Payroll and Benefits Unit:

- Continued improvement to the automated leave balance and employees time systems.
- Continued to resolve personnel compensation and benefits problems and concerns, and design preventative processes.

Special Projects Unit:

- In partnership with various programs developing an automated employee on-boarding and off-boarding process.
- Development and implementation of the Employee Merit Program.
- In partnership with Covered California University, provide informal/formal training programs aimed at the management/supervisory development, employee development, and orientation for new employees.

Human Resources Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	35	44	46
Personal Services	\$ 2,214,250	\$ 2,789,087	\$ 2,973,082
Benefits	\$ 1,029,957	\$ 1,310,871	\$ 3,229,794
Contracts	\$ 409,948	\$ 1,907,962	\$ 487,000
OEE	\$ 212,550	\$ 367,000	\$ 324,800
Total Expenses	\$ 3,866,705	\$ 6,374,920	\$ 7,014,677

Budget Highlights

- The budget includes an increase in funding for the State Compensation Insurance Fund premium.
- The contract budget includes:
 - \$180,000 for examination lists and hiring.

Activities Supporting Covered California's Mission and Strategy

- Automating and streamlining human resources services provided to internal and external customers.
- Provide support to the functions/responsibilities of the various programs of the departments.
- Continue to pursue technological advances that improve operating efficiencies.
- Partnering with each program area to implement continuous improvement of organizational culture and maintaining a workplace that fosters a healthy, positive and respectful work environment.

Talent Management & Succession Planning

Provides strategic talent leadership to ensure Covered California is considered an employer of choice and can attract, develop, retain and recognize the best talent. Builds and leads a talent management and succession planning function that supports the overall strategic plan and vision.

Key Activities

- Employee Engagement – Assist leadership in identifying common themes for improvement both at the department and division levels in creating an overall engagement strategy.
- Develop and implement a workforce plan that aligns staffing and competencies with the department's current and future strategic business needs.
- Build a targeted, sustainable succession plan for key senior roles.

- Conceptualize, build, and roll-out learning solutions that center on career development, career ladders, and increase team's ability to be net talent exporters.

Key Accomplishments

- Implemented comprehensive employee engagement program.
- Continued the development of a workforce plan and succession plan for Covered California.

Activities Supporting Covered California's Mission and Strategy

- Developing a strategic talent management function including: recruitment, development, retention, succession planning, recognition and employee communication.
- Designing a leadership development program that includes the identification of high-potential staff, preparation of high potential staff for leadership positions, and development of managers and other leaders to meet the organization's current and future needs.
- Working with management to identify performance gaps and help identify and develop solutions to improve individual and team performance.

Legal

The Office of Legal Affairs (OLA) provides legal services to all Covered California staff by providing preventive legal advice and consultation to ensure compliance with the laws and to mitigate legal liability. It provides legal advice on a variety of matters pertaining to Covered California and its programs, contracts, operations and interfacing with the regulatory agencies. The OLA ensures that all legal agreements are fulfilled and Covered California operates within its legal authority and provides guidance on any statutes or regulations pertaining to Covered California.

Key Activities

- Advice and consultation
- Contracts
- Regulations
- Criminal background check
- Privacy
- Personnel
- Litigation support
- Conflict of interest
- Public Records Act requests
- Open meeting issues

Key Accomplishments

- Expanded the legal background check program to include Certified Enrollment Counselors and Plan-Based Enrollers.
- Drafted and promulgated Covered California's first permanent regulations packages for the Plan-Based Enrollers program, background check program and the Eligibility and Enrollment program.
- Implemented a new Statement of Economic Interest (Form 700) procedure with multi-level sign-off and referrals to the OLA for legal review as appropriate.
- Developed content for an on-line mandatory privacy training module that has been rolled out to all staff.

Legal Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	15	17	17
Personal Services	\$ 1,273,637	\$ 1,552,929	\$ 1,599,950
Benefits	\$ 473,853	\$ 730,182	\$ 726,944
Contracts	\$ 169,074	\$ 613,400	\$ 2,853,400
OEE	\$ 75,685	\$ 177,000	\$ 115,000
Total Expenses	\$ 1,992,249	\$ 3,073,511	\$ 5,295,294

Budget Highlights

- Consolidated all fingerprinting and background checks to the OLA
- The contract budget includes:
 - \$250,000 in background and fingerprinting services.
 - \$2,000,000 for the establishment of an Ombudsman Program.

Activities Supporting Covered California's Mission and Strategy

- Conducting preventive legal workshops designed to minimize litigation and legal liability by educating Covered California staff about the law (and changes in the law) and the legal implications of activities.
- Developing systems to monitor the volume and timeliness of legal services in the following areas: Human Resources; privacy; Public Records Act requests; and background checks.
- Conducting a client satisfaction survey that will be distributed to all executive staff and management.
- Creating a web page to provide clear, concise, user-friendly access to legal policies, relevant statutes and administrative regulations, legal review procedures, answers to frequently asked legal questions, information on relevant legal topics and changes in the law, and other documents designed to guide Covered California staff in making informed decisions.

Executive

The Executive office consists of the Executive branch and the Equal Employment Opportunity (EEO) Officer. The Executive branch develops organizational strategy and provides leadership direction in concert with the Covered California Board of Directors. Executive staff are responsible for Covered California's day-to-day operations and are tasked with facilitating and supporting Covered California's staff and the broad community of individuals and groups we partner with to provide our customers (including staff, the board, stakeholders, and the public) with the direction, information, tools and support they need. The Executive branch does this by providing leadership, mentoring, listening, learning and adjusting our efforts to meet our goals and serve our consumers.

The EEO Officer is responsible for developing, implementing, coordinating and monitoring the EEO program as well as analyzing and reporting on appointments, and bringing issues of concern regarding EEO to the Executive Director and recommending appropriate action.

Key Activities

- Developing and implementing high-level strategies
- Making major management decisions
- Managing the overall operations and resources of the department
- Acting as the main point of communication between the board and Covered California's operations
- Operating the EEO program

Executive Office Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	8	7	10
Personal Services	\$ 1,302,985	\$ 1,066,232	\$ 1,577,253
Benefits	\$ 431,754	\$ 501,129	\$ 731,855
Contracts	\$ 1,309,903	\$ 1,444,500	\$ 1,894,500
OEE	\$ 95,804	\$ 81,000	\$ 60,000
Total Expenses	\$ 3,140,446	\$ 3,092,860	\$ 4,263,607

Budget Highlights

- The contract budget includes:
 - \$1,500,000 in consulting services.
 - \$344,500 in EEO program services.

External Affairs

External Affairs supports Covered California's policy and program development by representing the organization in complex and sensitive legislative, policy, and administrative processes, and by building collaborative relationships with elected officials, state and local agencies, and stakeholders. External Affairs also proactively facilitates partnerships that encourage education, outreach and enrollment in Covered California.

Key Activities

- Government relations
- Constituent correspondence and engagement
- Legislation tracking
- Event support
- Technical assistance
- External stakeholder engagement
- External policy issues
- Public partnerships

Key Accomplishments

- Assisted in the resolution of escalated consumer cases spanning a variety of areas, including 1095-A disputes, enrollment issues and payment inquiries.
- Monitored and assessed legislation that has a potential impact on Covered California and provided technical assistance to the Legislature as needed.
- Provided updates and information to elected officials and staff, including presentations regarding Covered California, updates on new developments and responses to inquiries from elected officials as they appropriate.
- Reached out to elected officials offices throughout California during the third open-enrollment period with the goal of promoting enrollment into health coverage. In doing so, External Affairs secured partnerships with numerous elected officials at local, state and federal levels through op-eds, support for public/press events and targeted community outreach efforts.
- Partnered with 21 private and public entities in 2015 to promote enrollment into Covered California.

External Affairs Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions	8	7	7
Personal Services	\$ 492,637	\$ 509,674	\$ 504,346
Benefits	\$ 185,001	\$ 239,547	\$ 255,174
Contracts	\$ 38,656	\$ 40,000	\$ 105,000
OEE	\$ 39,116	\$ 56,000	\$ 42,000
Total Expenses	\$ 755,410	\$ 845,220	\$ 906,521
Reimbursements	\$ (6,855)	\$ -	\$ -
Total Operating Costs	\$ 748,555	\$ 845,220	\$ 906,521

Budget Highlights

- Funding for tribal consultations increased slightly from FY 2015-16.
- The contract budget includes:
 - \$75,000 for tribal consultations.

Activities Supporting Covered California's Mission and Strategy

- Maintaining open communication and coordination with all Covered California stakeholders.
- Developing a strategic public and private partnership plan.
- Monitoring and analyzing legislation impacting Covered California, its consumers and the health insurance market.
- Supporting executive staff with special projects.

Shared Enterprise Costs

Shared enterprise costs include expenditures that are not specific to an organizational function and that are shared across Covered California. In the FY 2016-17 budget these include Statewide Cost Allocation Plan and Statewide Distributed Administrative Costs (SWCAP/Pro Rata), and the provision of a reserve funding pool for strategic initiatives.

Shared Enterprise Budget

	FY 2014-15	FY 2015-16	FY 2016-17
	Actual Expenditures	Approved Budget	Proposed Budget
Positions			
Personal Services	\$ -	\$ -	\$ -
Benefits	\$ -	\$ -	\$ -
Contracts	\$ 1,543,057	\$ 13,493,138	\$ 3,000,000
OEE	\$ -	\$ -	\$ 8,000,000
Total Expenses	\$ 1,543,057	\$ 13,493,138	\$ 11,000,000

Budget Highlights

- The FY 2016-17 budget includes \$8 million for state mandated SWCAP/Pro Rata cost distribution requirements.
- \$3 million is provided for strategic initiatives.

X. Budget and Planning Process

The annual Covered California budget and planning process is a comprehensive and analysis-based process used to determine the most cost effective and efficient level of resources that the organization needs to carry out its legislatively mandated mission and goals. The organization's budget and planning process is based on established budget principles, processes and procedures in order to provide the highest levels of fiscal integrity, accountability, transparency and accuracy.

The budget process is facilitated by the Financial Management Division, working closely with the executive leadership and all program areas. In strict accordance with the financial guidelines set forth under Government Code section 100503, the Covered California Board must:

- Assess a charge on Health insurance companies that is reasonable and necessary to support the development, operations, and prudent cash management of the exchange.
- Authorize expenditures, as necessary, from the California Health Trust Fund to pay program expenses to administer the exchange.
- Keep an accurate accounting of all activities, receipts, expenditures and annually report that accounting to the Health and Human Services' Secretary.
- Commencing January 1, 2016, conduct an annual audit.
- Prepare an annual report for the Governor and the Legislature on its implementation and performance during the preceding fiscal year. The report must include the manner in which funds were expended and the progress towards meeting the requirements of the Affordable Care Act.
- Maintain enrollment and expenditures to ensure that expenditures do not exceed the amount of revenue in the fund and if sufficient revenue is not available to pay estimated expenditures, institute appropriate measures to ensure fiscal solvency.

Government Code section 100520 sets out the requirements for the establishment and utilization of the Health Trust Fund:

- The Board must establish and maintain a prudent reserve in the fund.
- Effective January 1, 2016, if at the end of any fiscal year, the fund has unencumbered funds in an amount that equals or is more than the Board-approved operating budget of Covered California for the next fiscal year, the Board is required to reduce the per-member per-month rate during the following fiscal year in an amount that will reduce any surplus funds of the exchange to an amount that is equal to the agency's operating budget for the next fiscal year.

Additionally, pursuant to Section 100521 Government Code, the Board must:

- Ensure that the establishment, operation and administrative functions of Covered California do not exceed the combination of available federal funds, private donations and other non-General Fund monies. No state General Fund money may be used for these purposes without a subsequent appropriation.
- Determine that sufficient financial resources exist or will exist in the fund. Such determination must be based on: (1) financial projections which show that sufficient resources exist or will exist in the fund to implement Covered California; (2) a comparison of projected resources and projected costs; and (3) financial projections that demonstrate the sufficiency of resources for at least the first two years of operation.
- Provide notice to the Joint Legislative Budget Committee and the Director of Finance that sufficient financial resources exist in the fund to implement Covered California activities.
- If the Board determines that the level of resources in the fund cannot support the operations of the exchange, provide a report to the Department of Finance and the Joint Legislative Budget Committee detailing the changes to the functions, contracts, or staffing necessary to address the fiscal deficiency along with any contingency plan should it be impossible to operate Covered California without the use of General Fund monies.