

## AGENDA

### ASSEMBLY BUDGET SUBCOMMITTEE NO. 6 ON BUDGET OVERSIGHT AND PERFORMANCE EVALUATION

Assemblymember Bob Blumenfield, Chair

THURSDAY, MAY 5, 2011

STATE CAPITOL, ROOM 4202  
UPON ADJOURNMENT OF SESSION

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#### Overview of Performance Evaluation and Performance Based Budgeting Workplan

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ISSUE 1	Piloting of Performance Evaluation—Request for Information	16

Date of Hearing: May 5, 2011

ASSEMBLY COMMITTEE ON BUDGET  
Bob Blumenfield, Chair  
AB 21 (Nestande) – As Introduced: December 6, 2010

SUBJECT: State budget and key liabilities.

SUMMARY: Prohibits the Governor from including in the budget proposal estimates of revenues that would be generated from laws not then in effect. The bill would require that the Governor present a report to the Legislature listing the state's key liabilities, and as part of the budget, provide data regarding revenues that would be required to retire key liabilities. Specifically, this bill:

- 1) Prohibits including revenues estimated to be from laws, programs or executive actions not in effect at the time the budget is submitted to the Legislature;
- 2) Requires that the budget include percentages and amounts of General Fund revenues that must be set aside and applied toward retiring key liabilities; and,
- 3) Directs that the Governor submit to the Legislature a report providing information on balance and repayment of loans; requirements related to deferred or suspended expenditures or fund transfers; other liabilities related to debt, retirement and infrastructure affecting the state financial health.

EXISTING LAW: Requires a budget plan with proposed expenditures and estimated revenues to be submitted by the Governor to the Legislature. Prohibits the Legislature from sending a Budget Bill to the Governor that would appropriate from the General Fund amounts in excess of General Fund revenues and prevents the Governor from signing such a bill.

FISCAL EFFECT: Minor administrative costs associated with compiling information and preparing the additional report.

COMMENTS: The bill would not appear to require the preparation of any new data or analysis but simply require that existing information on the state's "key" liabilities" be presented together in the form of a report submitted along with the budget.

The bill would preclude revenues estimated for purposes of the budget from including any revenues generated from laws, programs, or revenues that were not in effect or effectuated at the time the budget is submitted. This would limit policy flexibility, in that the budget submitted to the Legislature in January could not include, for example, the proceeds of the sale of any assets that were to conclude in the period after the budget submission but prior to the budget year. Perhaps more significantly, the Governor would be prohibited from submitting a budget that relied in part on new proposed tax revenues (or the continuation of existing temporary tax revenues) that under current law were not in effect (or slated to expire prior to the budget year).

The bill would add to the existing asymmetry with respect to revenues and expenditures, in that estimated revenues could not include any proposed policy changes that would result in increased revenues, whereas a similar restriction would not apply to expected expenditure reductions.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

Analysis Prepared by: Mark Ibele / BUDGET / (916) 319-2099

Date of Hearing: May 5, 2011

ASSEMBLY COMMITTEE ON BUDGET  
Bob Blumenfield, Chair  
AB 27 (Gorell) – As Amended: December 6, 2011

SUBJECT: State Budget

SUMMARY: Requires the budget bill to be in print for 72 hours prior to the passage. This bill also stipulates the format for which state agencies and departments submit budget requests to the Department of Finance. Specifically, this bill:

- 1) Requires that the budget bill be in print and posted for at least 72 hours prior to passage of the act;
- 2) Requires each state agency, department, or the courts to submit to the Department of Finance a budget that contains 80 percent of the general fund appropriation of the previous year; and,
- 3) Requires specific information be included in the budget submission of each state agency, department, or the courts to the Department of Finance. This information includes score functions, goals, outcome-oriented performance measure, and the impact of the reduction of General Fund appropriation on the core functionality of the department, agency, or court.

EXISTING LAW: Requires state agencies, departments, and the courts to submit a detailed budget to the Department of Finance in a manner prescribed by the department.

FISCAL EFFECT: Some unidentified additional costs associated with additional analytical time needed to fulfill the new reporting requirements.

COMMENTS: This bill is titled the "Priority Based Budget Act of 2011." According to the author, the bill intends to shift the State's budgeting approach to a "priority based budget" costs management tool. The author cites use of a similar budgeting process in several California cities.

Under current law, the Department of Finance has the authority to structure the format for budgets it receives from agencies, departments, and the courts. This includes cut scenarios that departments must submit to help balance the budget. It is unclear whether this bill would still allow Finance to request scenarios beyond the 80 percent target set by this law or if Finance could make other requests of agencies and departments.

In the last five years, the budget bill has been in print more than 72 hours prior to adoption on the floor four of five times. The one exception was in 2010-11, when the budget was adopted on October 7, 2010, which was the latest budget ever adopted, and was passed 100 days after the budget deadline.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on File.

Analysis Prepared by: Christian Griffith / BUDGET / (916) 319-2099

Date of Hearing: May 5, 2011

ASSEMBLY COMMITTEE ON BUDGET  
Bob Blumenfield, Chair  
AB 998 (Morrell) – As Amended: February 18, 2011

SUBJECT: State Budget

SUMMARY: Requires that the budget and budget implementation bills be in print for more than 72 hours before they can be passed by the Legislature.

FISCAL EFFECT: None.

COMMENTS: This bill requires that the budget bill and all budget implementations bills, as defined by Proposition 25, be in print for 72 hours. According to the author, this will increase transparency and improved outcomes because the Legislature will have sufficient time to review all budget bills.

This bill could reduce the ability of the Legislature to meet Constitutional deadlines for passing the budget on time. Article IV, Section 12 of the California Constitution requires the passage of the budget by midnight of June 15<sup>th</sup>. Therefore, the budget process allows only 32 days between the issuance of the May Revision and the final passage of the budget to allow for public hearings and the conference process to reconcile the two legislative houses' versions of the budget. This bill would further shrink the 32 day window by setting aside three days for the bills to be in print.

In the last five years, the budget bill itself has been in print more than 72 hours prior to adoption on the floor four of the five times. The one exception was in 2010-11, when the budget was adopted on October 7, 2010, which was the latest budget ever adopted, and was passed 100 days after the budget deadline.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

Analysis Prepared by: Christian Griffith / BUDGET / (916) 319-2099

Date of Hearing: May 5, 2011

ASSEMBLY COMMITTEE ON BUDGET  
Bob Blumenfield, Chair  
ACA 5 (Portantino) – As Amended: December 6, 2010

SUBJECT: State Finance Reform

SUMMARY: Establishes a "pay-as-you-go" requirement for ten years that all voter initiatives, statutes, bond issuances and bond sales costing more than \$250,000 must provide additional state revenue to be enacted. Specifically, this bill:

- 1) Prohibits the submission of any initiative measure that would increase state costs more than \$250,000 over the amount spent for that purpose in 2004-05 unless the measure includes additional state revenue or offsetting savings that cover the increased costs;
- 2) Prohibits the submission of any initiative measure that would authorize the issuance of general obligation bonds unless the measure includes additional state revenues or offsetting savings to cover interest, principle, and issuance costs;
- 3) Prohibits passage of any non-urgency statute that would increase state costs more than \$250,000 over the amount spent for that purpose in 2004-05 unless the measure includes additional state revenue or offsetting savings that cover the increased costs;
- 4) Prohibits the Treasurer from selling any currently authorized bonds unless the measure authorizing the sale of the bonds also contains additional state revenue or offsetting savings in the amount necessary to replay the bond, including principle and interest;
- 5) Contains a sunset provision for this measure of January 1, 2020; and,
- 6) Includes extensive findings and declarations.

FISCAL EFFECT: Unknown.

COMMENTS: This measure would create a very strict "pay-as-you-go" (PAYGO) provision for all major state expenditures in bills and initiatives; it would not apply to revenue reductions, except for tax expenditure items. The author has stated that the measure is intended to mirror the federal PAYGO policy in order to help assist in laying the foundation for prudent and economically sound spending.

The structure of this measure may conflict with subdivision (d) of Section 12 of Article IV of the Constitution, which restricts any bill, other than the budget bill, from containing more than one appropriation. ACA 5 envisions that single bills and initiatives will include both the original appropriation for the stated purpose in the bill and a second appropriation for the additional revenues or offsetting savings.

This measure may require all future budget packages to be adopted with a 2/3<sup>rd</sup> vote. Typically, a budget package includes a budget bill which contains most of the appropriations for the budget, and trailer bills that make the policy changes associated with those appropriations. While the

entirety of the package must be balanced and would thus satisfy the PAYGO provisions in theory, under this measure, each bill must independently meet the PAYGO requirements if they cost more than \$250,000 over the 2004-05 level for the services. This, it is likely the only way a budget package could be constructed to meet this PAYGO requirement would be to include an urgency clause in every budget related bill, including the budget bill.

This measure could undermine public health and safety in emergencies. Unlike other fiscal measures that constrain spending, this measure does not include any exemption in the case of an emergency, such as a massive disaster, as stipulated in subdivision (c) of Section 3 of Article XIII B of the Constitution, which could limit the State's ability to respond to a natural disaster, public health emergency, or war if this measure was in effect.

This measure may cause large disruptions to existing transportation, environmental, housing, school construction, local jail, and court projects funding with authorized bond funding. California has \$130 billion in currently authorized bonds, with close to \$37.1 billion that has not been appropriated. This measure applies to these previously authorized bonds retroactively, and may be interpreted as a changing of the terms and conditions of the bonds. If the terms and conditions of the bond are changes it is likely that the voters would need to reauthorize the remaining bond funds under the new terms before any funds could be appropriated.

In addition, under the provisions of the measure, the Legislature may need to identify new revenue or offsetting savings for an entire bond in order to appropriate partial funding for an existing measure to be sold. For example, the 2011-12 budget includes the appropriation of \$2.3 billion of remaining authorized Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Security Bond Act of 2006, funding. This measure may require the Legislature to identify funding for the entire costs of the \$19.9 billion bond for the Treasurer to sell the \$2.3 billion in bond funds.

#### REGISTERED SUPPORT / OPPOSITION:

##### Support

None of file.

##### Opposition

California Taxpayers Association

Analysis Prepared by: Christian Griffith / BUDGET / (916) 319-2099

Date of Hearing: May 5, 2011

ASSEMBLY COMMITTEE ON BUDGET  
Bob Blumenfield, Chair  
ACA 8 (Olsen) – As Amended: April 14, 2011

SUBJECT: State Budget

SUMMARY: Requires that the Governor include in the January budget submission and projection for the following year and that if that projections anticipate a deficit that the Governor's budget include specific revenue or expenditure solutions to balance the budget in the following year. Specifically, this bill:

- 1) Requires, when submitting the budget to the Legislature, that the Governor's budget include a statement of intent for the following year that includes projections of expenditures and revenues;
- 2) Requires, that if the estimate for the following year anticipates a deficit, that the Governor's budget include specific revenue and/or expenditure proposals to address that deficit; and,
- 3) Makes conforming changes to the wording of existing Constitutional language.

EXISTING LAW: Subdivision (a) of Section 12 of Article IV of the Constitution requires that, when the Governor submits the budget in January, if expenditures are projected to exceed revenues for the fiscal year the Governor must recommend sources for additional revenues and/or spending reductions necessary to balance the budget.

FISCAL EFFECT: None.

COMMENTS: This measure is intended to provide better long-term planning by expanding the requirement that Governor's proposed January budget balance in the fiscal year to include a requirement that the Governor submit a budget that is also balanced in year following the fiscal year. The measure does not bind the Legislature to adopt solutions beyond the fiscal year.

This measure mirrors current practice, as the January budget typically includes an assessment of the year following the fiscal year. The Governor's 2011-12 budget actually includes projects for three years following the fiscal year and articulates a plan to balance for all four future fiscal years.

The requirements of this measure could have been included in a bill in lieu of a Constitutional Amendment. Many components of the budget process, such as the requirement for the May Revision, are contained in the Government Code.

REGISTERED SUPPORT / OPPOSITION:

Support

Howard Jarvis Taxpayer's Association

Opposition

None on file.

Analysis Prepared by: Christian Griffith / BUDGET / (916) 319-2099



Date of Hearing: May 5, 2011

ASSEMBLY COMMITTEE ON BUDGET  
Bob Blumenfield, Chair  
ACA 13 (Nestande) – As Introduced: December 29, 2010

SUBJECT: State budget.

SUMMARY: Prohibits the Legislature from sending to the Governor a Budget Bill in which General Fund appropriations exceeded General Fund revenues as determined by the Controller. Specifically, this bill:

- 1) Requires the Controller to provide to the Legislature no later than June 1 of each year an estimate of the General Fund revenues for the budget year with the estimate to be included in the Budget Bill.
- 2) Requires the Controller, within three days after the Budget Bill is sent to the Governor, to certify whether the bill would satisfy the existing requirement that Budget Bill appropriations (together with other appropriations and amounts transferred to the Budget Stabilization Account) do not exceed General Fund revenues for that fiscal year.
- 3) Prohibits the Governor from signing the Budget Bill into law prior to receiving the Controller's certification as described above.
- 4) Allows the Governor to sign the Budget Bill, if the Controller has certified that revenues do not exceed appropriations (as described above), only if the following occur:
  - a) The Governor eliminates or reduces one or more appropriation items such that General Fund appropriations do not exceed General Fund revenues; and,
  - b) The Governor submits the budget bill to the Controller who certifies within three days of submission that General Fund appropriations do not exceed General Fund revenues.
- 5) Prevents the Legislature from adjourning for more than 10 days, after the Budget Bill has been sent to the Governor, before the Controller certifies that for that Budget Bill General Fund appropriations do not exceed General Fund revenues.

EXISTING LAW: Requires submission by the Governor to the Legislature a budget plan with proposed expenditures and estimated revenues. Prohibits the Legislature from sending a Budget Bill to the Governor that would appropriate from the General Fund amounts in excess of General Fund revenues and prevents the Governor from signing such a bill.

FISCAL EFFECT: Annual costs in the low- to mid-hundreds of thousands of dollars associated with establishing new revenue estimating expertise for the Controller's office.

COMMENTS: The Controller serves as the state's chief fiscal officer and as such, the office offers professional administrative services, fiscal controls, and independent oversight of the state's financial activities. The office monitors cash balances as part of its regular duties; however, it does not engage in revenue estimating to any substantial degree. Revenue estimates

are currently conducted by the Department of Finance (DOF) and the Legislative Analyst's Office (LAO) and are incorporated into the budget-making process. This estimating activity relies on complex economic and financial modeling and requires a non-trivial commitment of resources and substantial expertise. Given this, it is likely that any certification by the Controller would either rely on existing data sources, such as those estimates already conducted by DOF or LAO, or would require an additional commitment of resources for the Controller to establish an independent revenue estimating unit.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

Analysis Prepared by: Mark Ibele / BUDGET / (916) 319-2099

Date of Hearing: May 5, 2011

ASSEMBLY COMMITTEE ON BUDGET  
Bob Blumenfield, Chair  
ACA 16 (Logue) – As Introduced: February 10, 2011

SUBJECT: State budget

SUMMARY: Requires an estimate of General Fund revenues be made jointly by the Controller and Treasurer and provided to the Legislature and Governor by January 5 of each year with an update provided by April 30 of each year. Specifically, this bill:

- 1) Requires that the Controller and the Treasurer to jointly provide to the Governor and the Legislature by January 5 of each year an estimate of the General Fund revenues for the budget year.
- 2) Requires that the Controller and the Treasurer to jointly provide to the Governor and the Legislature by April 30 of each year an amended estimate which represents corrected and updated estimates of the General Fund revenues for the budget year.
- 3) Prohibits the Legislature from sending to the Governor and the Governor from signing a Budget Bill that would appropriate more (together with other appropriations and amounts transferred to the Budget Stabilization Account) than General Fund revenues for that fiscal year as estimated jointly by the Controller and Treasurer.

EXISTING LAW: Requires submission by the Governor to the Legislature a budget plan with proposed expenditures and estimated revenues. Prohibits the Legislature from sending a Budget Bill to the Governor that would appropriate from the General Fund amounts in excess of General Fund revenues and prevents the Governor from signing such a bill.

FISCAL EFFECT: Costs in the mid-hundreds of thousands of dollars to establish a new jointly administered revenue estimating unit.

COMMENTS: The Controller serves as the state's chief fiscal officer and as such, the office offers professional administrative services, fiscal controls, and independent oversight of the state's financial activities. The office monitors cash balances as part of its regular duties. The Treasurer provides custodial financial services, investment activities, and debt issuances on behalf of the state. Neither office currently engages to any substantial degree in revenue estimating. Such revenue estimating activities are currently conducted by the Department of Finance (DOF) and the Legislative Analyst's Office (LAO), the results of which are incorporated in the budget process. Such revenue estimating relies on complex economic and financial modeling and requires a non-trivial commitment of resources and substantial technical expertise. Given this, it is likely that any estimates by the Controller and Treasurer would either rely on existing data sources, such as those estimates already conducted by DOF or LAO, or would require an additional commitment of resources to establish an independent revenue estimating unit for each of these entities.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

Analysis Prepared by: Mark Ibele / BUDGET / (916) 319-2099

## **OVERVIEW**

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### **COMMITTEE DISCUSSION OF PROGRAM EVALUATION AND PERFORMANCE BASED-BUDGETING**

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#### **Broad Support exists for Performance-Based Budgeting and increased oversight in the budget process.**

Last year, the Budget Committee considered performance-based budgeting as part of its oversight process. Since that time, the committee has heard from non-profits, business leaders, community activists, organized labor, and other jurisdictions that believe that adding performance-based budgeting is critical to fixing California's budget process.

#### **Other governmental entities have successfully implemented performance-based budgeting**

Other jurisdictions have implemented some version of performance-based budgeting at the federal level; the Governmental Performance Results Act of 1993 established a performance management system that remains in effect today. Several states, including Oregon, Washington, New Mexico, Virginia, and Indiana use performance-based budgeting. In California, several counties cities including San Mateo, Sunnyvale, and Concord have performance-based budgeting systems.

#### **The State of California tried—and failed to implement performance based budgeting.**

In 1993 Governor Wilson signed, the Government Performance and Results Act of 1993 that piloted performance-based budgeting in five departments. In 1996, the LAO released a review of California's PBB pilot project and found "a significant investment of resources had been made" but no clear benefits or results had been identified. The LAO also found that the tracking and reporting mechanisms used by various agencies were inconsistent and confusing. The 1993 pilot was ended in 1999.

**Workplan for this Subcommittee**

1. Today: Discuss performance based budgeting and program evaluation.
2. Today: Pilot—Ask LAO, BSA, and Departments to report by September 15, 2011 information to allow the Committee to conduct program evaluation hearings and to consider possible performance measures.
3. After Budget Passes: Discussion regarding Performance Based Budgeting
  - a. Discussion of other Jurisdiction's Performance Measures Systems
  - b. Revisiting the 1993 Pilot—What went wrong?
4. September: Receive and review reports. Staff will craft a discussion agenda.
5. Fall 2011: Hold Oversight Hearings on DMV and Caltrans—these will include public comment.
6. Spring 2012: Discussion of evaluation process: Did it add value? How could it be improved?

## **2740 – DEPARTMENT OF MOTOR VEHICLES**

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### **ISSUE 1: PILOT OF PROGRAM EVALUATION**

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#### **Department of Motor Vehicles**

Please provide the Assembly Budget Subcommittee #6 no later than September 15, 2011 a report to assist the Subcommittee in evaluating your programs. The report shall include, but is not limited to the following information:

- A description of your overall department mission, goals, and programs;
- Staffing details, including organizational charts;
- The location of your facilities, including a description of the purpose of each site;
- The composition of your executive team, with a description of how your department makes decisions at the executive level;
- Any performance measures and reports your department feels would help the Subcommittee evaluate your performance;
- A copy of your strategic plan, if available;
- An internal assessment of the department's strengths, weaknesses, opportunities, and challenges in both the near and short term;
- An example of a recent accomplishment of your department and a description of how this occurred;
- An example of a recent difficulty experienced by your department and how your department responded;
- A description of peer organizations you compare your performance against;
- A self-assessment of your department's succession planning efforts;
- Three to five performance measures that your department believes could be used by this Subcommittee when considering your budget; and,
- Other information requested based on follow up discussion.

**Legislative Analyst's Office**

Please provide the Assembly Budget Subcommittee #6 no later than September 15, 2011 the following information:

- An overview of LAO findings and recommendations regarding DMV;
- An assessment of DMV responsiveness to LAO recommendation; and,
- Any other observations the LAO would wish to make.

**Bureau of State Audit**

Please provide the Assembly Budget Subcommittee #6 no later than September 15, 2011 the following information:

- An overview of BSA findings and recommendations regarding DMV over the last ten years;
- A summary of any major audit findings regarding DMV in the last five years;
- An assessment of DMV responsiveness to BSA recommendation;
- An assessment of how DMV performs on the Single Audit when compared to other state departments and agencies; and,
- Any other observations that BSA would wish to make.

## **2660 – DEPARTMENT OF TRANSPORTATION**

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### **ISSUE 1: PILOT OF PROGRAM EVALUATION**

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#### **Department of Transportation**

Please provide the Assembly Budget Subcommittee #6 no later than September 15, 2011 a report to assist the Subcommittee in evaluating your programs. The report shall include, but is not limited to the following information:

- A description of your overall department mission, goals, and programs;
- Staffing details, including organizational charts;
- The location of your facilities, including a description of the purpose of each site;
- The composition of your executive team, with a description of how your department makes decisions at the executive level;
- Any performance measures and reports your department feels would help the Subcommittee evaluate your performance;
- A copy of your strategic plan, if available;
- An internal assessment of the department's strengths, weaknesses, opportunities, and challenges in both the near and short term;
- An example of a recent accomplishment of your department and a description of how this occurred;
- An example of a recent difficulty experienced by your department and how your department responded;
- A description of peer organizations you compare your performance against;
- A self-assessment of your department's succession planning efforts;
- Three to five performance measures that your department believes could be used by this Subcommittee when considering your budget; and,
- Other information requested based on follow up discussion.



**Legislative Analyst's Office**

Please provide the Assembly Budget Subcommittee #6 no later than September 15, 2011 the following information:

- An overview of LAO findings and recommendations regarding Caltrans;
- An assessment of Caltrans responsiveness to LAO recommendation; and,
- Any other observations the LAO would wish to make.

**Bureau of State Audit**

Please provide the Assembly Budget Subcommittee #6 no later than September 15, 2011 the following information:

- An overview of BSA findings and recommendations regarding Caltrans over the last ten years;
- A summary of any major audit findings regarding Caltrans in the last five years;
- An assessment of Caltrans responsiveness to BSA recommendation;
- An assessment of how Caltrans performs on the Single Audit when compared to other state departments and agencies; and,
- Any other observations that BSA would wish to make.