

## AGENDA

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

**Assemblymember Bob Blumenfield, Chair**

THURSDAY, JULY 14, 2011

STATE CAPITOL, ROOM 437  
UPON ADJOURNMENT OF SESSION

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Date of Hearing: July 14, 2011

ASSEMBLY COMMITTEE ON BUDGET  
Bob Blumenfield, Chair  
SB 14 (Wolk, DeSaulnier, and Huff) – As Amended: May 19, 2011

SENATE VOTE: 38-0

SUBJECT: State Budget

SUMMARY: Creates a performance-based budget process and a program evaluation legislative process. Specifically, this bill:

- 1) Requires, by 2014-15, the Governor to include the following information in the January budget:
  - a) The mission and goals of each agency;
  - b) The activities and programs of the agency;
  - c) Performance measures that reflect the desired outcomes of the agency and a targeted performance level of the following year;
  - d) Prior-year performance data; and,
  - e) A description of the impacts to current beneficiaries of a program proposed for modification or elimination.
- 2) Implements the new performance-based budgeting requirements subject to appropriation in the budget, but requires the Department of Finance to prepare a plan that expects one-third of all state expenditures will use performance-based budgeting in the 2012-13 budget process.
- 3) Requires the Department of Finance to develop an implementation plan, guidelines for developing performance measures used in performance-based budgeting, and training programs for state employees. A task force, consisting of the Director of Finance, the Controller, and the chairs and vice chairs of budget committees in both houses would review and comment on the Department of Finance's plan, guidelines, and training program.
- 4) Requires the Legislature to designate a committee to adopt a process and timeline for a performance review of all state programs at least once every ten years. Stipulates that one-third of all General Fund expenditures must be reviewed by July 1, 2015 and two-thirds of all General Fund expenditures must be reviewed by January 1, 2018.

EXISTING LAW: Article IV, Section 12 of California's Constitution requires the Governor to submit a balanced budget to the Legislature by January 10<sup>th</sup> of each year. Government Code Section 13308 requires the submission of the budget trailer bill language by February 1<sup>st</sup> of each year.

FISCAL EFFECT: Likely costs starting in the tens of millions associated with additional workload on the part of the Department of Finance, agencies, and departments to prepare the required information in the shortened timeframes provided for in the bill.

COMMENTS:

The bill establishes a performance-based budgeting process over a three-year timeframe. Subject to appropriation in the budget, one-third of the budget would be expected to be performance-based in 2012-13, which would be only ten days after the measure would actually take effect if enacted. Additionally, these activities are subject to appropriation in the budget for implementation. Full implementation is envisioned by 2014-15.

Significant issues are raised by this bill and are outlined below:

- 1) **Aggressive Timeline.** This timeline is likely too aggressive for the full implementation of a statewide effort of performance measures.
  - a) In 1993, the State attempted to pilot performance-based budgeting in three departments; this effort was deemed unsuccessful and was discontinued in 1999.
  - b) The aggressive timeline may also result in increased costs that could be avoided if implementation could leverage resources with other initiatives, in particular the development and implementation of the Fi\$Cal state accounting and budgeting system that will roll out over the next ten years.
- 2) **Task Force Duties.** This bill creates an implementation task force of the Director of Finance, the Controller, and the Chairs and Vice-Chairs of both budget committees to review the DOF plan for implementation, guidelines for development of performance measures, and training needs associated with implementing this bill.
  - a) Given the other time commitments of the members of this task force, it is hard to see how this group could meet often enough to offer substantial guidance and feedback on all of these important implementation issues.
- 3) **Development of Performance Measures.** This bill requires that the performance measures associated with performance based budget must be submitted with the main budget submission on January 10<sup>th</sup> of each year.
  - a) This provision adds workload to Department of Finance, agencies, and departments during the peak work months, which means increased staff are likely needed to implement the measures on this timetable. However, the author believes this is needed to ensure that there is a linkage between performance measures and Jan 10 budget.
- 4) **Program Evaluation.** This bill mandates that the Legislature designate a policy committee to conduct a program evaluation review of all state programs under specific timelines and using a set of criteria stipulated in the bill.

- a) If this section were to be enacted, it would create a potential separation of powers issue because the Legislature could not alter its own process for conducting program evaluation without a governor's signature on subsequent legislation.
- b) In addition, these components of the bill raise significant process and policy questions over how policy committees would review proposed legislation to change or terminate programs and how these decisions would reconcile and return to the budgeting process.

REGISTERED SUPPORT / OPPOSITION:

Support

State Controller John Chiang (co-source)  
California Forward (co-source)  
AARP  
American Association of University Women  
American Council of Engineering Companies of California  
American Federation of State, County and Municipal Employees  
Bay Area Council  
Business Council of San Joaquin County  
Brocade Communications Systems, Inc.  
California Alliance of Child and Family Services  
California Association of Bed & Breakfast Inns  
California Chamber of Commerce  
California Chapter of the American Fence Association  
California Church IMPACT  
California Construction and Industrial Materials Association  
California Fence Contractors' Association  
California Grocers Association  
California Hotel & Lodging Association  
California Independent Oil Makers Association  
California Manufactures & technology Association  
California Partnership for the San Joaquin Valley  
California Retailers Association  
California Senior Advocates League  
California State Student Association  
California Taxpayers Association  
Consumer Specialty Products Association  
Contra Costa Council  
Engineering Contractors' Association  
Flasher Barricade Association  
Fresno Business Council  
Greater Fresno Area Chamber of Commerce  
Greenlining Institute  
Half Moon Bay Coastside Chamber of Commerce  
Herbalife International of America, Inc.  
Huntington Beach Chamber of Commerce  
Kern County Taxpayers Association  
Los Angeles Area Chamber of Commerce

Marin Builders' Association  
MoSys Inc.  
Proofpoint Systems Inc.  
San Francisco Chamber of Commerce  
San Gabriel Valley Economic Partnership  
San Mateo County Economic Development Association  
Santa Clara and San Benito Counties Building and Construction Trades Council  
Santa Cruz County Medical Society  
Saving California Communities  
Service Employees International Union  
State Building and Construction Trades Council of California  
Silicon Valley Leadership Group  
TechAmerica  
USANA Health Sciences, Inc.  
Valley Industry and Commerce Association  
WELL Network

Opposition

None on file.

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

Date of Hearing: July 14, 2011

ASSEMBLY COMMITTEE ON BUDGET  
Bob Blumenfield, Chair  
SB 15 (DeSaulnier and Wolk) – As Amended: May 19, 2011

SENATE VOTE: 39-0

SUBJECT: State Budget

SUMMARY: Requires the annual submission of a two-year budget and makes various changes to the information that is required to be submitted by the Governor to the Legislature as part of the budget process. Specifically, this bill:

- 1) Requires the Governor to submit, on or before January 10<sup>th</sup> of each year, a budget proposal for both the budget year and the succeeding fiscal year. If expenditures are expected to exceed revenues for either or both fiscal years, the Governor is required to offer proposals to balance the budget for either or both years. Budgets for both years would be updated at the May Revision.
- 2) Requires that any time the budget proposes to create or expand the scope of an existing state program that would result in net state costs or reduce a state tax that would result in a decrease in revenue, that the budget include a statement identifying the state program and/or source of additional state revenue that is equal or greater than the net increase in state costs or net decrease in state revenues.
- 3) Requires the Governor's budget to provide estimates for anticipated revenues and expenditures for the three fiscal years succeeding the budget year when the budget is submitted on or before January 10<sup>th</sup>.
- 4) Stipulates that the Governor submit legislative language needed to implement budget provisions and the five-year infrastructure plan when the budget is submitted on or before January 10<sup>th</sup>.
- 5) Requires an estimate of the long-run impact of expenditure and revenue proposals on the economy of California.
- 6) Requires, commencing in 2015 or upon appropriation, the Department of Finance to provide the Legislature with an update of the five-year projections of state revenues and expenditures on or before October 15<sup>th</sup>.

EXISTING LAW: Article IV, Section 12 of California's Constitution requires the Governor to submit a balanced budget to the Legislature by January 10<sup>th</sup> of each year. Government Code Section 13308 requires the submission of the budget trailer bill language by February 1<sup>st</sup> of each year.

FISCAL EFFECT: Likely costs in the tens of millions associated with additional workload for the Department of Finance, agencies, and departments to prepare the required information in the shortened timeframes provided for in the bill. In addition, there are likely unknown costs

associated with this bill leading to budget decisions that may worsen economic conditions and result in lost economic activity and lost tax revenue.

COMMENTS: This bill is well intended with goals of increasing awareness of the state's long-term economic conditions. The author's office indicates the goal is to increase information about the budget but not place new requirements onto the Legislature.

However, there are significant problems with how this bill attempts to address perceived shortcomings with the current budget process. These are outlined below:

**1) Long-term budget forecasts are currently available.** Under the current budget process, the following long-term forecasts are available:

- a) Historically, the Legislative Analyst has provided a five-year budget forecast every November. This forecast has been helpful in understanding the fiscal direction toward which the state is heading, and has proved critical in budget decisions during the budget discussions in the months that follow. This information is provided on the Legislative Analyst's website at: <http://www.lao.ca.gov/laoapp/main.aspx?type=2&PubTypeID=5>.
- b) Typically, the Department of Finance provides the Legislature detailed multi-year budget forecast at the time of the January 10 proposal, as well as at the May Revision. This information for the 2011-12 enacted budget can be found on the Department of Finance's website: [http://www.dof.ca.gov/reports\\_and\\_periodicals/documents/MY%20at%202011%20BA%20\(WebVersion\).pdf](http://www.dof.ca.gov/reports_and_periodicals/documents/MY%20at%202011%20BA%20(WebVersion).pdf). This information is also provided to the following offices:
  - i) The Legislative Analyst;
  - ii) The Democratic and Republican Leadership Offices; and,
  - iii) The Chair and Vice-Chair of the Budget Committees.
- c) Governor Brown has made multi-year forecasts a centerpiece of his budget proposals, and has explicitly provided multi-year information in all the public supporting documents along with this budget proposals, including on page 3 of the Budget Summary, page 5 of the May Revision, and page 5 of the budget signing/veto document.

**2) Long-term forecasts often prove unreliable.** Long-term forecasts are used for understanding the general direction of the state. However, out-year estimates have historically not proven particularly accurate due to the dynamic nature of California's economy and the observable correlation of state revenue with the national business cycle and financial market performance. Therefore, while it is important to understand the direction the state is headed, relying too heavily on the specific figures can lead to troubling results.

- a) For example, in the 2006 Fiscal Outlook, the LAO projected General Fund revenues of \$128 billion for 2011-12. Currently in 2011-12, projections have been updated to be just \$87.3 billion, resulting in the long-term forecast having been off by over \$40 billion, roughly 46 percent of our actual amount of General Funds for the year.

- b) For a more recent example, in the six months since the Governor's January 2011 forecast, revenue forecasts have increased by a total of \$11.8 billion over the current and budget years.

**3) Unreliable long-term forecasts can encourage over-spending as well as unnecessary, harmful cuts.**

- a) California has experienced years of negative economic conditions, however a time may come again when the economy portends, and projections therefore support, large out-year surpluses. In this hypothetical positive economic circumstance, policy makers will be pressured to cut long-term taxes and increase long-term spending. If a Governor is forced to make an official two-year budget proposal, it is likely to include proposals to "spend-down" the out-year surpluses through tax cuts and spending increases. But just as past forecasts have been wrong, the future forecasts will assuredly be inaccurate as well, leaving the state unable to afford the tax cuts or spending increases, and the budget out of balance. Relying on out-year projections for a two-year budget assures decisions that will need to shift as corrections are detected, raising the question of what benefit a two-year budget can provide.
- b) The equal and opposite tenet applies when projections are negative on a prolonged basis given out-year estimates. This is evidenced in our recent budget history, when the Legislature cut too deeply in the March budget action given the projections at the time. A portion of these cuts were restored in the final budget to avoid some of the most devastating economic impacts of the most problematic cuts.

**4) Limits chances of "balanced solutions."** Under this bill, the Governor would be required to make budget proposals to balance the budget the year after the upcoming budget year.

- a) As stated above, long-term forecasts are not reliable, and therefore the Governor would be required to make proposals for a year based on information that is highly likely to be out of date by the time that year arrives. Therefore, a Governor would likely be reluctant to propose tax increases for the second year if it is very uncertain that tax increases are not required.
- b) As a result of the above, the Governor would likely propose balancing the budget in Year Two with spending reductions only. Once Year Two arrives, and the situation develops that tax increases are in fact the preferred option to address the budget shortfall, the Governor would have to reverse him/herself and pull back a portion of previously proposed spending cuts and replace them with tax increases. The political considerations of such a turnaround very likely inhibit the development of a "balanced solution," which generally provides for the least harmful economic impacts of difficult budget solutions.

**5) Cost reconciliation requirement raises critical questions.**

- a) This bill will cost millions to implement, but ironically, does not identify other spending cuts or tax increases to cover the costs, despite the bill requiring the Governor to do so should he/she propose new spending.



- b) Since the Governor must submit, and sign, a balanced budget in aggregate, requiring incremental justification for every small program expansion may make the overall budget process more complicated and confusing.
- c) This provision of the bill could also force the Department of Finance to have to artificially link two completely unrelated policy proposals to comply—for example linking the increased costs mandated by the federal-court appointed prison receiver with an offset from the reductions to parks and higher education contained in the budget.

**6) Changes to timelines raise critical questions.**

- a) This bill requires shortens the timeframe for the Department of Finance to produce draft trailer bill language for legislative changes necessary to implement the January budget and for the issuance of the five-year infrastructure plan. In both cases, this bill requires the submission of this information with the January budget, on or before January 10<sup>th</sup>. Current law allows trailer bill language be submitted by February 1<sup>st</sup> of each year and is silent on a deadline for the submission of the five-year infrastructure plan, but it was typically submitted later in the annual budget process.
- b) The acceleration of these timeline would likely result in additional costs for both the Department of Finance, Legislative Counsel, and agencies and departments that would have to produce these extra deliverables during their busiest time of the year. It is not clear what benefit would be gleaned from having these documents available so early in the process, given the costs associated with the expedited delivery.

**7) Settling of already adopted reforms still taking place.**

- a) Proposition 25 provides historic improvements to the budget process and additional tinkering with the budget process should wait until the full impacts of Proposition 25 play out and are fully understood.

**8) Alternatives available without legislation.**

- a) If the Legislature desires additional long-term information or to make such information more public, then the best way to accomplish that would be to share the information that exists today or perhaps request the Legislative Analyst to update their long-term forecast more than once a year.
- b) This could be done at no cost to taxpayers and without resulting in negative long-term consequences for the state.

**REGISTERED SUPPORT / OPPOSITION:**

Support

California Forward (co-source)

AARP

American Association of University Women

American Federation of State, County and Municipal Employees

Bay Area Council  
Brocade Communications Systems, Inc.  
Business Council of San Joaquin County  
California Alliance of Child and Family Services  
California Church IMPACT  
California Partnership for the San Joaquin Valley  
California Senior Advocates League  
California State Student Association  
Contra Costa Council  
Fresno Business Council  
Greenlining Institute  
Half Moon Bay Coastside Chamber of Commerce  
Huntington Beach Chamber of Commerce  
Kern County Taxpayers Association  
Los Angeles Area Chamber of Commerce  
Marin Builders' Association  
MoSys Inc.  
Proofpoint Systems Inc.  
San Francisco Chamber of Commerce  
San Gabriel Valley Economic Partnership  
San Mateo County Economic Development Association  
Santa Clara and San Benito Counties Building and Construction Trades Council  
Santa Cruz County Medical Society  
Saving California Communities  
State Building and Construction Trades Council of California  
State Controller John Chiang  
Silicon Valley Leadership Group  
Valley Industry and Commerce Association  
WELL Network

Opposition

None on File.

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

Date of Hearing: July 14, 2011

ASSEMBLY COMMITTEE ON BUDGET  
Bob Blumenfield, Chair  
AB 430 (Feuer) – As Amended: February 14, 2011

SUBJECT: State Budget

SUMMARY: Requires the Governor's budget to provide estimates for anticipated revenues and expenditures for the three fiscal years succeeding the budget year and the five-year infrastructure plan when the budget is submitted before January 10<sup>th</sup>. The bill also requires an estimate of the long-run impact of expenditure and revenue proposals on the economy of California. Finally, the bill requires projections for the three additional years be updated on May 15<sup>th</sup>, and October 15<sup>th</sup>.

EXISTING LAW: Article IV, Section 12 of California's Constitution requires the Governor to submit a balanced budget to the Legislature by January 10<sup>th</sup> of each year. Government Code requires the Governor to submit the May Revision of estimates and expenditures by May 14<sup>th</sup> of each year.

In conjunction with the Budget, the Governor is required to annually submit a five-year infrastructure plan to the Legislature.

FISCAL EFFECT: Unknown additional costs may be necessary for staff time and professional services contracts to comply with requirement to estimate the long-run economic impacts of expenditure and revenue proposal.

COMMENT: The Department of Finance currently provides an estimate of expenditures and revenues for the three years following the budget year as part of the submission to the Legislature of the January 10 Governor's Budget and May Revision. For the 2011 enacted budget, this estimate is available on the Department of Finance's website at [http://www.dof.ca.gov/reports\\_and\\_periodicals/documents/MY%20at%202011%20BA%20\(WebVersion\).pdf](http://www.dof.ca.gov/reports_and_periodicals/documents/MY%20at%202011%20BA%20(WebVersion).pdf). In addition, the Legislative Analyst's Office has included a forecast for these future fiscal years as part of the annual November "Fiscal Outlook" publication. This information is available on the Legislative Analyst's website at <http://www.lao.ca.gov/laoapp/main.aspx?type=2&PubTypeID=5>.

While these fiscal estimates provide helpful perspective regarding how much of the current budget deficit is expected to be "structural" (meaning ongoing) versus one-time, history has demonstrated that these out-year estimates are not particularly accurate because of the dynamic nature of California's economy and the observable correlation of state revenue with the national business cycle and financial market performance. For example, the LAO 2006 Fiscal Outlook projected General Fund revenues of \$128 billion for 2011-12. Now that we have arrived in 2011-12, our projections have been updated to be just \$87.3 billion, this means the long-term forecast was off by over \$40 billion, roughly 46 percent of our actual amount of General Funds for the year

The bill also requires the Governor to include budget-related proposals for the three years following the budget year. It is unclear if this vague language requires the Governor to include the three-year impacts of budget year proposals, or if the Governor would be required to make

specific proposals for each of the following three years. If it is the latter, than the comments raised in the analysis of SB 15 (DeSaulnier) related to the risks and pitfalls of long-term budget proposals and forecasting apply to this bill as well.

While Government Code Section 13102 requires the Governor to make an annual submission of a five-year infrastructure plan to the Legislature, the previous Administration stopped complying with this requirement in 2008 and no new plan has been received since that time. The Department of Finance reports that the current Administration intends to comply with this requirement and instructions have been sent to departments to begin gathering the necessary information to allow submission of this plan for 2012.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

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

Date of Hearing: July 14, 2011

ASSEMBLY COMMITTEE ON BUDGET  
Bob Blumenfield, Chair  
SB 822 (Evans) – As Amended: March 24, 2011

SENATE VOTE: 35-0

SUBJECT: State Infrastructure

SUMMARY: Requires the Governor to provide the Treasurer with a copy of the five-year infrastructure plan that is already required by statute.

EXISTING LAW: In conjunction with the Budget, the Governor is required to annually submit a five-year infrastructure plan to the Legislature.

FISCAL EFFECT: Staff estimates no cost to provide a copy of the plan to the Treasurer.

COMMENT: While Government Code Section 13102 requires the Governor to make an annual submission of a five-year infrastructure plan to the Legislature, the previous Administration stopped complying with this requirement in 2008 and no new plan has been received since that time. The Department of Finance reports that the current Administration intends to comply with this requirement and instructions have been sent to departments to begin gathering the necessary information to allow submission of this plan for the year 2012.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

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