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Assembly
California Legislature



ASSEMBLY COMMITTEE ON BUDGET
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Agenda

August 24, 2011

10 a.m. - Room 4202

- 1) SB 14 (Wolk) State Budget
- 2) SB 15 (DeSaulnier) State Budget

Date of Hearing: August 24, 2011

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

SENATE VOTE: 38-0

SUBJECT: State Budget

SUMMARY: Creates a statewide performance-based budget process. Specifically, this bill:

- 1) Requires the establishment of performance-based budgeting for all state departments and agencies. Statewide the implementation of performance-based budgeting would occur concurrently with the new start of the new budget process that will be developed as part of the Fi\$Cal accounting system project. As part of the Governor's budget submission, each department would be required to provide the following information in the 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) Requires the Department of Finance (Finance or DOF) to develop an implementation plan, by August 1, 2012, that articulates how the State will achieve full statewide implementation of performance-based budgeting.
- 3) Implements the new performance-based budgeting requirements subject to appropriation in the budget, but requires the Department of Finance to begin performance-based budgeting in the 2013-14 budget process with programs and departments identified in the implementation plan.

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

FISCAL EFFECT: Small absorbable costs for Finance to provide the plan for implementation. Additional costs will depend upon the extent to which Finance believes it can leverage existing resources and the Fi\$Cal project to develop performance-based budgeting, and would be subject to appropriation in the budget.

COMMENTS: The bill establishes a statewide performance-based budgeting process that would be rolled out over a five-year period. Subject to appropriation in the budget, some departments and programs would begin to be performance-based in 2013-14, with additional implementation detailed in a timeline outlined by the Department of Finance in a report to the Legislation. The Finance plan will detail the path to full implementation across all state departments by 2018-19, when the Fi\$Cal accounting system is implemented. Fi\$Cal will integrate the state's accounting, budgeting, cash management, and procurement operations into one single system. It is anticipated that this new system will result in changes to the mechanics and process that the administration uses to develop the budget. By correlating the implementation of performance-based budgeting with the implementation of the new Fi\$Cal budget component, the costs for implementing the new performance-based budget process will be reduced.

REGISTERED SUPPORT / OPPOSITION:

Support

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: August 24, 2011

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

SENATE VOTE: 39-0

SUBJECT: State Budget

SUMMARY: 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's budget documents 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 10th, upon submission of the May Revision, and upon enactment of the Budget Bill. If available, this estimate should be compared to the projection from the four previous fiscal years.
- 2) 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 10th.
- 3) Requires the Department of Finance to contract with the University of California to conduct a study on the impact of the budget on California Economy. This study is due in December 2012.

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

FISCAL EFFECT: Small absorbable one-time cost associated with the University of California economic study.

COMMENTS: This bill intends to increase 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. This bill provides the necessary information to make these estimates an important part of the future budget deliberations.

This bill builds upon currently available long-term budget forecasts to incorporate the discussion of the State's long-term fiscal direction at several milestones in the budget process. The bill would require formalize the use of these projections in a manner consist with the use of this information in the 2011-12 budget process. In the current budget process, the following long-term forecasts are available:

- 1) 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>.

- 2) Typically, the Department of Finance provides the Legislature detailed multi-year budget forecasts 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:
 - a) The Legislative Analyst;
 - b) The Democratic and Republican Leadership Offices; and,
 - c) The Chair and Vice-Chair of the Budget Committees.
- 3) 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.

This bill also requires that, if possible, these long-term projections are compared to past long-term projections. This provides needed context to ensure that long-term forecasts are used for understanding the general direction of the State. 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; and,
- 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.

This bill includes a provision to require the University of California to conduct a study on the impact of the budget on California's economy. This report will also contribute to the discussions of the interplay between the economy and the budget.

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

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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
Silicon Valley Leadership Group
Valley Industry and Commerce Association
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Opposition

None on File.

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