

Strengthening the Budget Process



Legislative Analyst's Office

Presented to:

Joint Hearing—Select Committees on Improving State Government

Senator DeSaulnier and Assembly Member Feuer, Chairs

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Problems

- **Weakened budgetary process.**
- **Little effective oversight.**
- **Legislature's position relative to executive branch.**

Context for Change

- **How can Legislature most effectively use its time each biennium?**
- **Lay out a workplan for policy and budget committees based on priorities.**
More focused, targeted oversight.

Two-Year Biennial Budget

- **First Year:**

Adopt separate budgets for both years.

- **Second Year:**

Update revenue and spending numbers.

Make major caseload adjustments.

Focus significant time on oversight.

Biennial Budgets: Key Issues

- **How to reinvigorate the subcommittee process.**
- **Role of fiscal committees.**

Performance-Based Budgeting: Some Brief History

- **1980s: Program budgeting.**
- **1990s: Pilot program on performance-based budgeting.**
- **Very little impact on budgeting.**

Performance-Based Budgeting: Why Is It So Difficult to Do?

- **Programs have a variety of goals.**
- **Programs have tension between goals.**
- **Lack of focus on outcomes.**
- **Lack of focus on cost-effectiveness.**

Performance-Based Budgeting: Prerequisites for Success

- **Strong commitment from and collaboration with both branches.**
- **Bipartisan support.**
- **Institutionalize into process.**
Has to change the way budgets are thought about and reviewed each year.

Performance-Based Budgeting: First Steps

- **Focus on performance measures.**
- **Schedule implementation over a number of years.**
 - Start next year with ten departments/programs.
- **Create joint committee.**
 - Unified legislative approach.
 - Work with administration.

Enact Budget Reserve Provisions

- **Best way to address revenue volatility.**
- **Signals expectations for future.**
- **Decide:**
 - Target level.
 - May “surprises.”
 - Accessing reserve.

Ballot Measures: “Locking Out” of Revenues

Date/Measure	Description	Annual Revenues
November 1988: Proposition 99	Provides a 25 cent per pack tax on cigarettes and dedicates the proceeds annually to tobacco education and health care services for low-income persons.	About \$300 million
November 1993: Proposition 172	Raises the statewide sales tax rate by one-half cent and dedicates the revenues in annual funds to local public safety purposes.	Almost \$3 billion
November 1998: Proposition 10	Provides a 50 cent per pack tax on cigarettes and dedicates the revenues annually to early childhood development programs.	Roughly \$600 million
November 2004: Proposition 63	Enacts a state personal income tax surcharge of 1 percent that applies to taxpayers with annual taxable incomes of more than \$1 million. The proceeds of the tax surcharge are earmarked to finance an expansion of community mental health programs.	About \$1 billion annually

Ballot Measures: “Locking In” of Spending

Date	Measure	Description
November 1988	Proposition 98	Provides for a minimum level of total spending (General Fund and local property taxes combined) on K-14 education in any given year. The required General Fund contribution is roughly 40 percent of the state’s budget.
March 2002	Proposition 42	Directs \$1.4 billion in sales taxes on gasoline to transportation purposes. (Reflected as General Fund spending.)
November 2002	Proposition 49	Requires that the state spend a certain amount (currently \$550 million) on afterschool programs.
November 2004	Proposition 1A	Restricts the Legislature from altering local government revenues in many cases. In prior years, the state took such actions which helped the state’s General Fund. Allows the borrowing of property taxes in limited circumstances.
November 2006	Proposition 1A	Restricts the circumstances in which the Legislature could suspend the Proposition 42 transfer for transportation.

Longer-Term Budgeting: Some Successes

- **Multi-year fiscal outlook the norm.**
LAO and DOF documents.
- **Five-year infrastructure plan.**

Longer-Term Budgeting: Improving Oversight on Infrastructure

- **Need to build the Legislature's institutional capacity to deal with infrastructure.**
- **Recommend a joint committee to:**
 - Review and critique the administration's five-year plan.
 - Set basic capital outlay policies.
 - Consider state and local responsibilities.
 - Work with budget subcommittees.

Longer-Term Budgeting: Fiscal Liabilities

- **We recently summarized various liabilities.**

Budget-related: About \$35 billion.

Infrastructure-related: About \$70 billion.

Retirement-related: \$100 billion to \$135 billion.

- **Budget documents should reflect the Legislature's plan on dealing with these liabilities.**